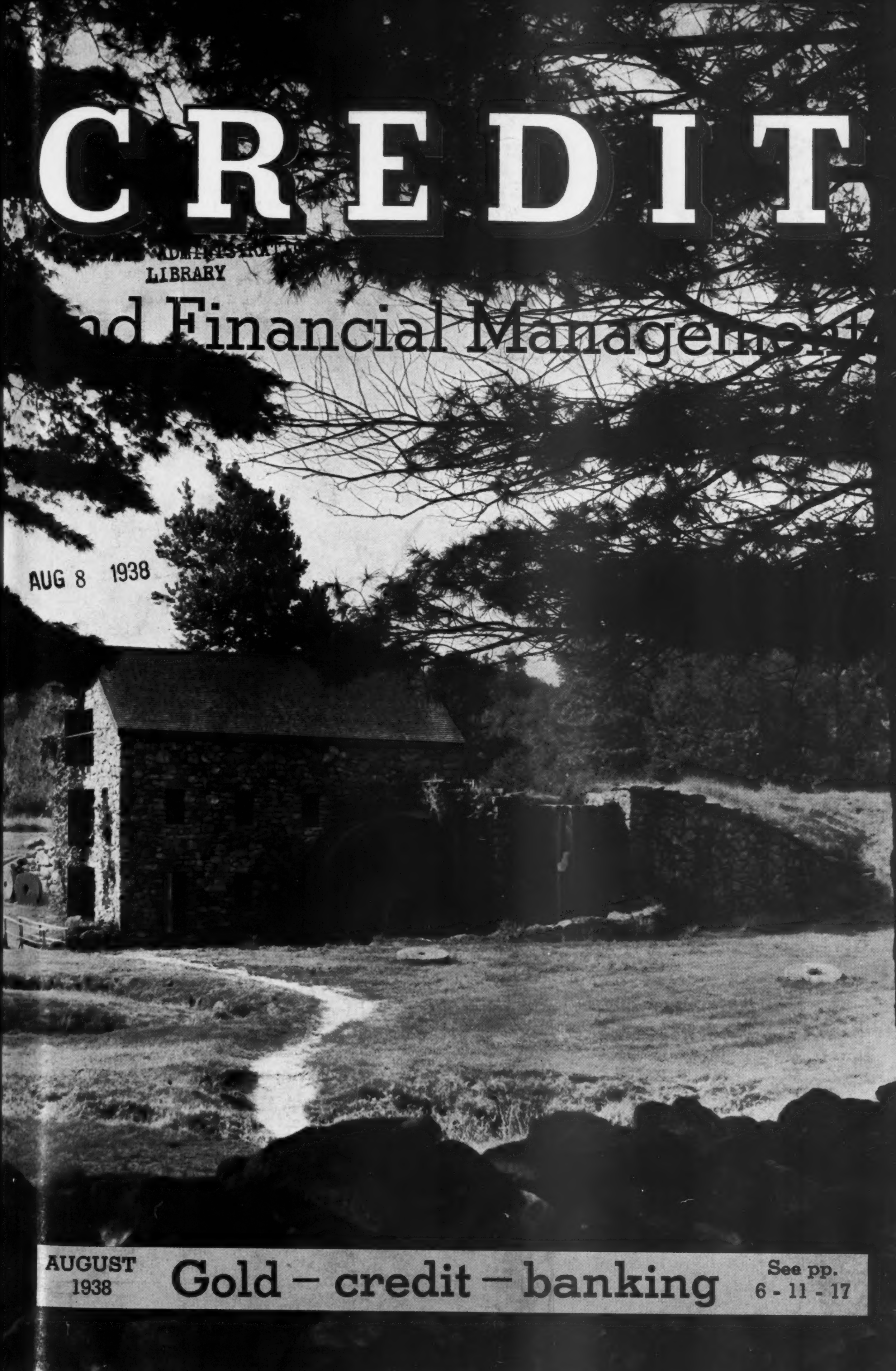
CREDIT

and Financial Management



AUGUST
1938

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Contents for **August, 1938**

Our cover: Old grist mill at Wayside Inn, Sudbury, Mass., as restored by Henry Ford. Photo from Gendreau

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Propaganda

At no time in the history of this nation, with the exception of the World War period, have we been so engulfed by propaganda for or against one cause or another. The World War, which developed a realization of the necessity of full civilian support for the embattled armies, opened a vast new field for cultivation by propaganda and tested many new means of dispensing it.

Today propaganda is wide-spread and subtly insidious. It has gone back-stage into the theatre, found its way into the motion picture studios, made its presence felt in conferences and educational centers, and influenced both newspapers and current fiction.

It is well, from one viewpoint, that propaganda is so wide-spread and that all groups can take part. It is our duty as citizens to lend an ear to the various influences and to judge keenly before reaching our conclusions. But it brings us a challenge. We must think. Our emotions and our prejudices must not be relied on, because of the recognized subtlety of some of the propaganda now in circulation.

One of the propaganda trends is the development of class prejudice. In this case all industrialists are Simon Legrees. Conservatives who seek to direct affairs along sound economic lines, in accordance with tested principles, are branded as reactionaries.

The implication is made very plain that for one man to be possessed of more than his fellow men is highly immoral. There is only short shrift for the industry, the thrift or the patience of those who have earned their so-called favored position. There is a tendency to make every man a "share-the-wealth" proponent.

This flood of propaganda makes us realize that there is no more fundamentally important task at hand for American business today than this matter of propaganda—or public relations, if we choose to adopt a more positive approach. Fighting fire with fire is an old truism. And a sincere and effective presentation of the contributions of American business to American economic welfare is worth the best efforts of the best minds in business today.

Executive Manager, N.A.C.M.

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12,000 tons of gold!

by HOWARD H. PRESTON, Professor of Money and Banking, University of Washington, Seattle.

In April of this year the United States Treasury desterilized one billion four hundred million dollars of inactive gold. Simultaneously the Board of Governors of the Federal Reserve System lowered reserve requirements of member banks, thereby making an additional three-fourths of a billion dollars available as a basis for credit expansion. As a consequence of these two pronouncements, more than two billion dollars of inactive cash was released in a single week.

The gold released in April of this year had been accumulated under a sterilization program inaugurated only a little over a year earlier. Reserve requirements had been doubled by regulations issued in the summer of 1936 and early 1937. The restrictive monetary policy in vogue a year ago has now been completely reversed. In the words of our nautically-minded President the wind shifted and accordingly the helm of the ship was swung from starboard to port in order to keep the ship on its course. These significant changes in monetary policy of the past two years make a review and analysis of our national gold program especially timely.

About ten years ago my distinguished fellow townsman, J. W. Spangler, selected as the title of an address setting forth the economic resources of the Pacific Northwest at the annual banquet of the Chamber of Commerce of the State of New York—"A Ton of Gold." I was intrigued by his subject and especially interested in his explanation of why it was chosen.

Mr. Spangler tells us that when the steamship "Portland" arrived in Seattle in the summer of 1897 with the first large shipment of gold from the Klondike an enterprising newspaper reporter flashed the news to the East that a "ton of gold" had arrived in Seattle from the Yukon.

At $20.67 per ounce, a ton of pure gold was worth approximately $600,000. An announcement of the arrival of this amount in dollars would have attracted only moderate attention. Stated as a "ton of gold" the news captured the imagination of the eastern editors; headlines and photographs heralded to the world the Klondike discovery. Thousands of men hazarded their lives in the far north in an effort to get their share of this unheard of wealth.

The monetary gold stock of the United States today—$12,750,000,000 is three times as much as we held five years ago. It is impossible for any of us to visualize 12¾ billion dollars of gold, so I have reduced dollars to pounds and pounds to tons. The total gold supply weighs more than twelve thousand tons. If loaded on coal cars, each with a capacity of thirty tons, this enormous stock of gold would require ten trains of forty cars each. The sheer quantity of this gold when thought of in physical terms seemed to me something which would challenge our imagination, and so the title was selected for this paper.

During the World War the gold standard was universally abandoned. In some nations the results were scarcely noticed; in others the departure from gold became the occasion for issuing huge quantities of printing press money the value of which fell in some instances to zero. Confusion and disorganization marked the period immediately following the Armistice. By the end of the decade of the 1920's the world had returned to the gold standard. But hardly had this result been achieved when falling prices and economic crisis forced the nations to again give up the gold standard, the lead being taken by Great Britain who announced her abandonment of gold in the autumn of 1931. Nation after nation followed her example but we remained loyal for nearly two years; then the gold standard was abandoned in our country.

You are familiar with the rapid movement of events in 1933 and 1934; the passage of the inflation bill permitting the President to reduce the size of our gold unit; the abrogation of the gold clause in monetary contracts, later sustained by the Supreme Court in the famous gold cases; and the adoption of the Gold Reserve Act of January 1934 in which we discarded the century-old dollar substituting in its place a 59¢ dollar. The result was an overnight increase in the dollar supply of our gold although the tonnage remained unchanged.

To use the figure of one of my friends, "we threw aside the old cooky cutter and bought a new one from which we could make approximately 70 per cent more dollars with the same amount of 'dough'."

The Gold Reserve Act included a provision for creating an exchange

stabilization fund of $2,000,000,000 to enable the secretary of the treasury to maintain a fair degree of stability in the foreign exchange value of our dollar. For nearly a year gold exportation had been prohibited and importation limited to gold bought by the government under its gold buying program announced in the autumn of 1933. Fearing there might be an outflow of gold if our embargo was lifted, licenses were required for exporting gold, but the anticipated outflow did not occur. Instead gold has poured into this country almost without interruption for the past four years.

Additions to our monetary stock have been nearly $6,000,000,000 in the four years since revaluation was made effective. Of this amount 540 million was obtained from American mines, the balance came from over seas.

We now turn to a consideration of questions which are frequently asked regarding this gold inflow: Where has it come from? What has caused it to flow to our shores? What has become of it after reaching America?

Where has it come from? The largest single source was from the monetary stock of France. Since January 1934, France has sent us nearly $2,000,000,000 of gold. England has been a second large contributor to our gold inflow but what she has sent has not come out of her own monetary stock but has included gold received from other nations and newly-mined gold from British dominions, the greatest gold producing areas of the world. Canada has sent gold direct from her mines. Japan shipped us a quarter of a billion in 1937. Other nations of the world have sent gold either directly or indirectly.

An important ultimate source of our gold imports has been newly-mined gold, now more than one billion dollars a year. Our total imports, however, have greatly exceeded the world's total production of new gold making it necessary to draw on other sources. Much gold was necessarily drawn therefore from the monetary reserves of other nations. Quite a little of it was dehoarded gold which had been held by frightened citizens of the European countries. In the summer of 1937 it was estimated that $100,000,000 per month was reappearing from the private holdings of Western Europe. India has been the world's greatest sink for precious metals for centuries; she has disgorged about one billon dollars of gold in the past decade. Gold hoarders have had an opportunity to realize an enormous profit since gold is now $35 per ounce as compared to the former $20.67.

"As ithers see us"

Under the caption, "Just Foolishness," the London, England, "Sphere" recently made this comment:

"The United States contains six per cent of the world's area and seven per cent of its population. It normally consumes 48 per cent of the world's coffee, 53 per cent of its tin, 56 per cent of its rubber, 21 per cent of its sugar, 72 per cent of its silk, 36 per cent of its coal, 42 per cent of its pig iron, 47 per cent of its copper, and 60 per cent of its crude petroleum.

"The United States operates 60 per cent of the world's telephone and telegraph facilities, owns 80 per cent of the motor cars in use, operates 33 per cent of the railroads. It produces 70 per cent of the oil, 60 per cent of the wheat and cotton, 50 per cent of the copper and pig iron, and 40 per cent of the lead and coal output of the globe.

"The United States possesses almost $11,000,000,000 in gold, or nearly half of the world's monetary metal. It has two-thirds of civilization's banking resources. The purchasing power of the population is greater than that of the 500,000,000 people in Europe, and much larger than that of the more than a billion Asiatics.

"Responsible leadership which cannot translate such a bulging economy into assured prosperity is *destitute of capacity.* But *pompous statesmen,* looking over the estate, solemnly declare that the methods by which it was created are all wrong, ought to be abandoned, just be discarded; that the time has come to *substitute political management* for individual initiative and supervision.

"There is only one way to characterize that proposal. . . . it is just damn foolishness."

Moreover, each dollar has more purchasing power than it had eight years ago, i.e., our price level is below the pre-depression average. As a consequence of the higher price for gold and lower commodity prices each ounce of gold will buy nearly double what it would a decade ago.

What has caused it to flow to our shores? Approximately one billion of gold came in 1934 and 1935 which had gone abroad in 1931 and 1932 because of the fear of the stability of our banks and monetary system—a return of our own gold. Foreigners repurchased some of their own securities which American investors had bought in the post war decade. A substantial amount came to share in the revival of prosperity and the upswing in the price of American stocks in 1935 and 1936. Some was sent to America because European holders of bank deposits and gold in hoarding regarded this as a desirable haven of safety.

According to Treasury figures the net capital movement to the U. S. in 1935 and 1936 was $2,600,000,000, almost exactly half of which was invested in securities and half deposited in our banks. Some of it was sent to pay interest and principal of debts and a portion to settle the balance of merchandise trade, since we have consistently sold more goods to the rest of the world than the world has sent to us.

There is a popular but erroneous impression that the price of gold in other countries has been maintained at the 1930 pre-depression level and that we alone are bidding for it at a higher price. This is not the case. The world's great free gold market is London. There the gold from her dominions, which represents about ¾ of the world's total production, exclusive of Russia, is sent for distribution to all of the world. Before 1931, the London price of gold was practically stable at approximately 85 shillings (4.25 pounds sterling) per ounce.

In recent years this price has fluctuated around 140 shillings (7 pounds) per ounce. With the prevailing rate for exchange of about $5 per pound sterling the London price is equivalent to very near $35. This is necessarily true since gold may flow in either direction, the only difference in price in the two markets therefore is the traveling expenses for the gold.

France and the other Gold Bloc countries of continental Europe did maintain the weight of their respective moneys at the 1930 level until 1935 or 1936. This was equivalent to a lower price for gold and was reflected in higher exchange rates on those countries after our revaluation in January, 1934. But they, too, have revalued their currencies—Belgium in 1935 and France, the Netherlands, and

Switzerland in 1936. Maintenance of relatively high exchange rates did contribute to their earlier loss of gold but that has not been an important factor in recent months.

What has become of the gold after reaching America? The metal itself has been turned over to the U. S. Treasury since one of the major features of the Gold Reserve Act was to nationalize all gold except that very limited amount which could be held by coin collectors. The gold has reached the treasury largely via the banks and was paid for prior to the adoption of the sterilization program in December, 1936, by depositing an equivalent amount of gold certificates in the Federal Reserve Banks against which checks were drawn in favor of the bank or dealer who imported the gold. With the exception of purchases made for the Stabilization Fund the Treasury has not actually "purchased" gold from abroad. It has accepted gold imported by banks and individuals. But whereas the gold itself was held by the Government, the money resulting from its deposit became the property of the Federal Reserve Banks or the member banks.

To make this concrete, assume gold was consigned to an American bank for the credit of a European depositor. This individual would receive deposit credit in a New York bank. The bank in turn might send the gold to the Federal Reserve Bank and receive credit in its reserve account for the full amount of the gold deposited. If the gold was routed via the New York Assay office the Treasury check received in payment for the gold would be drawn against the government's deposit in the reserve bank. When cleared the amount would be transferred to the member bank's reserve account. The Treasury, prior to sterilization, immediately deposited gold certificates in the Federal reserve bank dollar for dollar to the value of the imported gold.

The actual effect of the gold importation of 1934, 1935, and 1936, therefore, was to swell the cash reserves of member banks with the Federal Reserve Banks. An examination of the growth in total gold stock and bank reserves, shows that the two increased almost exactly the same amount in those three years. Total gold stock and bank reserves each increased approximately four billion dollars from January, 1934, to the end of 1936.

Additions to bank reserves will *permit,* although not necessarily *cause*, a multiple expansion in bank loans and deposits. Banks may continue to make loans, most of which will be added to deposits, as long as they maintain the legal ratio of cash to deposit liabilities. Actually loans did not increase as rapidly as bank reserves and we were confronted with the phenomena of huge "excess reserves."

In revising the Federal Reserve Act in 1935, Congress conferred upon the Board of Governors the right to change reserve requirements within certain limits, the minimum being the amount then fixed by law, the maximum double that amount. The law stipulated that changes could be made "in order to prevent injurious credit expansion or contraction." Early in 1936 it became apparent that the volume of "excess" reserves was so great that there was a possibility of "injurious credit expansion." To forestall this possibility the Board of Governors doubled reserve requirements by three steps, the first announced in the summer of 1936, and the other two early in 1937. These increases in reserve requirements impounded (made unavailable as a basis for bank deposit expansion) approximately $3,000,000,000 of gold which had come to our country.

In addition to increasing the amount of bank reserves, the government in December, 1936, announced that gold received thereafter would be "sterilized." In substance this meant that the incoming gold would be received as before but would be paid for with interest-bearing government obligations and not with gold certificates or other forms of paper money. By the autumn of 1937 the "sterilized" or inactive gold, as it was called, amounted to approximately one and a quarter billion dollars.

These policies had all been undertaken "in order to prevent injurious credit expansion." But the final increase in reserve requirements had been effective only a short time when the business recession of 1937 caused a reversal of credit policy. In the autumn of 1937, Federal Reserve rediscount rates were lowered, $300,000,000 in gold "desterilized," more liberal regulations were issued governing rediscounting, and margin requirements on security loans were liberalized. Early in 1938 a new program with respect to sterilization of gold was announced. This allowed only gold in excess of $100,000,000 received in any one quarter was to be added to the inactive fund. It was hoped that this pronouncement would have a favorable psychological effect. But the hoped for business improvement did not eventuate with the coming of spring.

In April therefore new and more spectacular moves were made to increase the quantity of money available for business expansion. The entire supply of inactive gold, amounting to $1,400,000,000 was "desterilized." At the same time reserve requirements of member banks were reduced approximately 13 per cent bringing them to about the level of March, 1937. In the same week Congress was asked to launch a huge program of government expenditures. The latter or "pump priming" phase of the problem is beyond the scope of this paper. We turn therefore to a consideration of the reasons for, and the probable effect of the gold and credit aspects of the program.

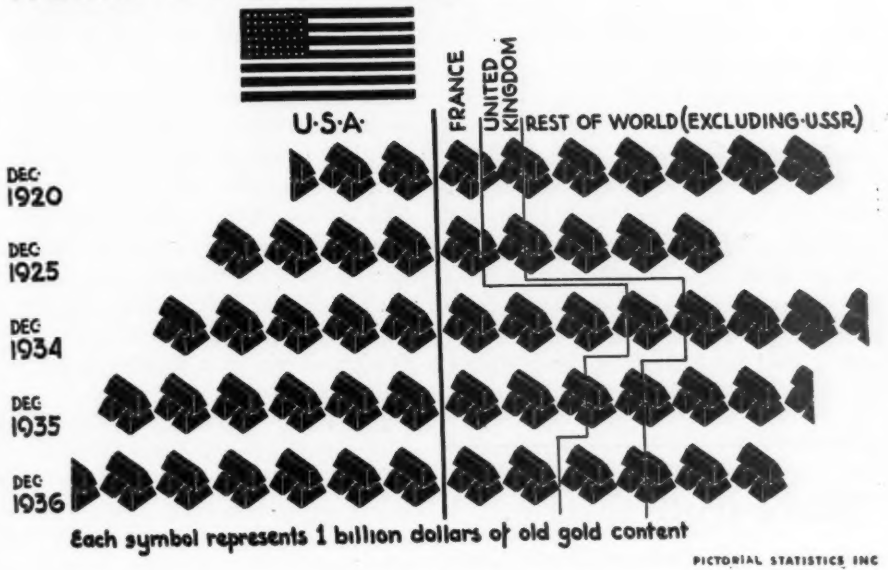
As noted above, the objective of monetary policy in 1936 was to cut down excess reserves and check potential inflation. The 1938 program, on the other hand, is expected to increase excess reserves and initiate an upturn in prices and business activity.

It is evident that reduction of legal reserve requirements will automatically increase the volume of excess reserves even if the total amount of reserves remains unchanged. In round numbers the increase was $700,000,000. The effect of desterilization of gold upon bank reserves may not be so apparent. A brief analysis of the method by which inactive gold was placed in circulation will show how member bank reserves will ultimately be increased and why some time must elapse before the full effect of the program will be felt.

The first step in the desterilization process was to deposit gold certificates in the reserve banks to the credit of the U. S. Treasury. As a result of this, the amount of gold certificates held by the reserve banks jumped overnight by $1,400,000,000 and the treasury balance was increased by a corresponding amount.

For the time being the total of mem-

WORLD GOLD RESERVES



From "The Literary Digest"

ber bank balances was unaffected. This situation, however, cannot continue. Government expenditures will be made by checks drawn upon the treasury account in the reserve banks. Maturing bonds or certificates will be paid instead of being renewed. As the treasury balance is drawn down the checks or cash will find their way into the deposits and reserves of member banks. It is anticipated that excess reserves of member banks, which were pushed to approximately 2½ billions by the change in requirements, will rise perhaps another billion in the next few months because of the shift of treasury balances to member banks.

What results have been achieved by the gold program of the past two years and what are likely to be the real effects of the changed policy? Because of the great inflow of gold the increase of reserve requirements in 1936 was unquestionably a wise precaution against "injurious credit expansion." The same may be said for the sterilization program inaugurated in December, 1936. A further reason for sterilization was the expectation that funds coming to this country might not remain permanently with us. They were frequently described as "hot money," coming here in a flight from the unsettled conditions prevailing in the country from which they came. If held "inactive," these funds could be withdrawn at any time without disturbing our credit structure. It was a costly process but in my opinion a sound one.

Considerable criticism has been directed at the Board for making the increases in reserve requirements in 1937. It is only fair to recall, however, that in the weeks that elapsed between the time, January 30, when the increase was announced and the effective date of the final advance on May 1, prices and business conditions had changed to a certain extent. The heavy buying of raw materials for rearmament purposes had slacked off, the spending of the bonus money was over, sit-down strikes were multiplying, the President had made a pronouncement against rising prices, and business men were becoming more cautious. The upsurge of business activity would probably have stopped in any case.

I do not feel that the restrictive program of a year ago was an important cause of the recession. Excess reserves never fell below $700,000,000 during 1937, which is seemingly ample. Interest rates continued at low levels and business appears to have had all the credit needed. There are grounds for difference of opinion as to how far credit restriction contributed to business recession. Some critics charge that the Board's action in 1937 forced a convalescing business industry back into depression. Viewed from the vantage point of today it seems likely therefore that the increase in reserve requirements might well have stopped on March 1, 1937. The Board would have escaped criticism for what would probably have occurred anyway even if no change had been made in reserves. Moreover, it would then have been unnecessary to have reversed the 1937 action in 1938.

We come now to a consideration of the probable effects of the combined program of lowering reserve requirements, and desterilization of gold in April, 1938. As outlined above, the reversal of monetary policy began in the autumn of 1937 with a reduction of rediscount rates, desterilization of $300,000,000 worth of gold and a liberalization of rediscount regulations. The spectacular change, however, was the one announced in April and it is to this that we direct our attention. When the latest policy of expansion was announced excess reserves were approximately $1,700,000,000. This would have permitted an increase of deposits and loans of at least $8,500,000,000 under the reserve requirements of 26, 20 and 14 per cent. If the reserve banks had seen fit to expand their own credit outstanding through open-market purchase of securities an even greater expansion would have been possible. Evidence of the abundance of available funds has been the low interest rates prevailing on prime open-market loans, bankers acceptances, treasury bills and other classes of short term liquid loans and investments during the current year.

Since we were far from the limits of effective expansion of bank credit and no monetary stringency appear to have existed it is difficult to see what practical results could have been expected to result from the additions to bank reserves. It appears reasonable to conclude therefore from this act of circumstances that it was the purpose of those responsible for these measures to make an impact upon business confidence and public psychology. The radio proclamation of the change in monetary policy was accompanied by the pronouncement in favor of a renewal of government expenditures on a large scale. The entire program was expansionist in nature and apparently it was hoped that the public would so interpret it and that it would serve as a hypodermic to the languishing business corpus. In this way the recessionary trend in economic activity was to be reversed.

The reduction in requirements to 23¾, 17½, and 12 per cent added about $700,000,000 to excess reserves and the gold desterilization program

may in time add about $1,400,000,000 more. Some banks did immediately rush out and purchase government securities in order to put their added cash to work. Temporarily, the market for government bonds boomed; the longer run effect upon total loans and investments by banks is still undetermined. Even if there is an increase in business activity it is more apt to be due to "pump priming" (which parenthetically may last only as long as water is poured into the pump) than to increased bank reserves.

The administration's two-fold program for increasing excess reserves seems to be based upon the assumption that money can be forced into use by glutting the banks with idle funds. It is apparently hoped that the pressure upon bankers to find new outlets through which to make loans and investments will prove irresistible.

There is little reason to think that this will take place. Governor Eccles once said that "you cannot push a string." The fishermen here know what it is that makes a slack line taut and a reel hum. Banks for years have been trying to hook good fish, using the bait of low interest rates, longer terms, and increased customer service.

Some months ago a Pacific Coast banker told me that when a first class prospect called his bank on the phone regarding a loan that he was promptly advised that a taxi would immediately call at his business house to bring him to the bank in order to close the loan. Bank loans increased in 1936 and early 1937 at the very time reserve requirements were increased. Commercial loans appear to be more a result than a cause of business activity.

In the long run there appears to me to be a real inflationary threat in the current policy since resterilization of gold is impracticable and the restoration of reserves to the maximum permitted by law would raise only slightly the dam against inflation.

Our verdict regarding the recent monetary policy therefore is adverse. Such drastic action appears to have been unnecessary and may make it more difficult for the Board to control "injurious credit expansion." Moreover, the program apparently must depend for its success upon its psychological effect. In the emergency of 1933 some spectacular moves were necessary to stimulate a depression-weary country and the price raising program did achieve certain immediate results. The limitations, however, upon a system of monetary policy based upon "a series of psychological shocks and counter shocks" are obvious.

From the international standpoint three results have followed from our gold policy of recent years. First, exchange rates have been kept relatively stable; second, maldistribution of gold reserves has been accentuated; and third, world gold production has been stimulated.

"More truth than . . ."

At the 43rd Annual Credit Congress in San Francisco there was presented at one of the sessions a three-act playlet on Credit Interchange. Its closing lines were a paraphrase of some written by William Shakespeare. Here they are:

To grant, or not to grant, that is the question:
Whether 'tis nobler to aid the debtor bear
The slings and arrows of outrageous fortune,
Or let him down against his sea of troubles.
For the quality of credit is not strained,
When past records tell of goodly circumstance:
It cometh as the gentle dew from heaven
Upon the place beneath: it is twice blest:
It blesseth him that gives and him that takes.

Credit opens new fields for business, that
Wisely guided, lead on to honorable content.
To credit managers comes the question
Shall sales gallop, like wild horses unrestrained
Or escape pitfalls or stratagems and spoils?

There is a tide in the affairs of men,
Which, taken at the flood, leads on to fortune;
Omitted, all the voyage of our life
Is bound in shallows and miseries.
On such a full sea are we now afloat;
And on credit men rests success or failure,
To grant or hold the saving stream of credit,
For we must take the current when it serves,
Or lose our business ventures.
So mote it be!

Fluctuation in foreign exchange rates has been minimized by the willingness of the United States to absorb all gold offered at a fixed price. England has shared with us the responsibility for maintaining stability in exchange rates. In so doing she accumulated more than a billion dollars of the yellow metal in 1936-37. The maintenance of a practically fixed ratio between the pound and the dollar has given other countries a norm toward which they could look in the management of their own currencies and to my mind has been worth doing.

While exchange rates have been comparatively stable mal-distribution of gold has increased. The United States today is in possession of more than half of the world's monetary gold. If the world's gold reserves are depicted as a circle the segments remind me of the division of pie in a family of our acquaintance in post-War days.

The father had been in France for several months and when he returned was starved for pie. One of his three little girls confided in us that "when mamma makes a pie, she cuts it in half and gives daddy half, then she cuts the other half in four parts for the rest of us." Uncle Sam is now playing the role of "daddy." England and France have approximately an eighth of the pie each; four smaller creditor nations —Belgium, the Netherlands, Switzerland and Sweden—have another eighth; and forty-five other countries have the other eighth. (Russia not included.)

We acquired a great deal of this gold (when it was a burden to our treasury and potentially inflationary) as part of our policy of tying the dollar to a fixed weight of gold. It would be desirable to redistribute some of the gold whenever it can be done on an economic basis. It is difficult at present, however, to foresee how this will be brought about. Fortunately gold importation in recent months has been moderate in amount. Gold production is taking place on a huge scale so that nations with a deficient gold stock can build up their own reserves even if there is no actual exportation by the United States.

Largely as a consequence of the increased price of gold there has been a phenomenal increase in the annual production of gold. Gold producing nations, notably South Africa, have profited by the high price of gold. The world is today producing nearly twice as many ounces of gold as a decade ago. In dollars the output in 1937 was more than three times that of 1927. (Russia's production for recent years is estimated since no official statistics are available.)

Revaluation, either legal or de facto,

(Continued on page 26)

Dr. PAUL F. CADMAN, President, American Research Foundation, San Francisco, discusses

Sound credit and social politics

It is recorded that when Madame de Pompadour was in the height of her influence in the court of Louis XV, she was one day posing for the court painter, La Tour. The King entered the room, greatly disturbed by the news of the defeat of his armies at the hands of Frederick the Great. Without changing her pose, she said to him, "After us, the deluge." To which he replied, "Things will last our time." The incident gave another tragic object lesson to all who deliberately ignore the consequences of excess. In less than 25 years France slid into the abyss of economic collapse.

By a not too sinister analogy, the modern world is again being called upon to consider the immense importance of solvency. In sober reflection, it is impossible to escape this question: Suppose the second attempt to "prime the pump" fails as did the first; what then? How long will it take to recognize the fallacy in spending borrowed money to generate recovery?

The term, credit, has its origin in the Latin word "credere," which means to believe, and by easy derivation implies trust or confidence. This is a fundamental idea necessary to the analysis of the nature and status of credit and the misuse to which it has been subjected in recent economic experiments throughout the world.

There is some doubt as to whether or not the quantity theory is an adequate explanation of the relation between money and prices, but it is clear that money and credit are of co-equal importance in appraising the value of goods and services. Everyone who has any interest in the dollar is directly concerned not only with the amount of credit available but with the employment of that credit and with its velocity in use, which is to say the rate at which it is employed. The monetary system of the United States has always functioned on a dual basis. Money facilitates immediate and short-term transactions; credit serves the same purpose for some of the short-term and most of the long-term transactions.

Credit is a manifestation of saving. A society which consumed all it produced could not enjoy it. From this homely truth it follows that unless savings had accumulated in the hands of individuals, credit in the sense in which you employ the term, would not be known today.

In practice, credit is something more than mere confidence, for many contracts are adequately secured. It involves an element of time—of waiting, a deferred payment, a promise to pay. The validity of this promise is a prime essential without which neither the concept nor the instruments of credit have meaning. Sound credit means not only that the promissor *intends* to pay but that he will be *able* to pay. Intent and ability are equally important.

All this appears to be extremely elementary but it is none the less vital since these indisputable principles have often been violated and have recently been extensively ignored. The error inherent in every effort to spend one's way to wealth is very persistent. A modern version provided a platform for a political movement which proposed to restore prosperity by distributing $200 a month to everyone over sixty. So glamorous was this promise —particularly to those whose earnings had never remotely approximated $200 —and so artful was the propaganda, that many of the victims attempted to purchase real goods on the strength of their belief that the distribution would be made. Some even threatened to boycott the furnishers when they refused to open accounts on such a basis.

The simple answer to all such confusion is that credit is a result and not a cause of produced wealth. May I urge you, however, not to dispute the matter with the proponents of this theory in open debate, for they will declare that they are going to give away two and one-half billion dollars, which in itself constitutes an unanswerable argument.

Perhaps the term "national income" is a misnomer. Certainly it gives rise to much disordered thinking. "Gross income" would be more accurate and more descriptive, since it would permit a careful review of the difference between gross and net. Those who talk most about national income fail to mention the many charges, such as taxes, which must be deducted from it. They would be the first to show astonishment at the fact that the net left in the hands of all who participate is very small, perhaps 10 per cent of the gross.

It follows that when the government creates a deficit in large figures, it reduces the net by the amount of that deficit. In other words, it mortgages the savings which are not only the principal source of expansion and improvement, but the real strength of our monetary system. Such deficits are a levy on those sums which age has set aside for its protection, which sums have heretofore been available to oncoming generations for the economic activity which youth has the right to enjoy.

Social credit in all its forms is, in considerable part, the result of economic experimentation through political agencies in which there is—consciously or unconsciously—an appeal to fear, cupidity and self-justification. In practically all the social credit proposals there is a disposition to minimize one of the essentials—namely, the ability of the borrower to pay.

The systematic attempt to lower the standards of credit so as to make it available to users who have not established their right to it, is a common practice in the new economics. But the attempt to make credit available on a theory of social justice is singularly like most of the proposals to redistribute wealth, all of which imply that wealth once redistributed will remain indefinitely in the hands of the new recipients.

The proposals and attempts to so-

cialize credit have not been confined to advances to individual borrowers. We have witnessed a misuse of credit by governments so gross and so widely practiced that it now threatens the solvency of industry the world around. It would be ridiculous to say that any single influence is wholly responsible for this international imprudence. However, at the risk of over-simplification it can be said that the World War of 1914-18 created debts which could not be paid. That war was financed largely by promises. The borrowed funds were spent for destruction rather than production and the only possible source of servicing the debt, was post-war productive industry. Nor could the frequently proposed confiscation of capital have liquidated these debts.

The bulk of our world's capital is in the instruments of production, the evidences of which are stocks and bonds in the hands of individuals and institutions. A wholesale seizure of wealth would have meant a wholesale appropriation of productive enterprise. The industry of the western world attempted to service the debt under such classifications as inter-allied obligations which were originally written in astronomical figures. These were gradually adjusted to comprehensible arithmetic, and after twenty years were finally repudiated. But the cost of the destruction of 1914-18 and the final repudiation still bears heavily upon economic institutions for the essential reason that credit is a promise and a contract, the violation of which cannot be made with impunity.

The economic maladjustments which have resulted from this debacle have been painful; but to an already serious mistake, there has been added another slightly less so. The western world—victors and vanquished alike—refused to accept the inevitable, to forestall the consequences of war-time credit expansion, side-stepped the necessity of liquidation, and pumped up the whole economic structure with promises which could not be met. But there are certain economic laws which are as inexorable as the laws of the Medes and the Persians. What we would not do for ourselves is now being done for us by the operation of natural forces.

The financing of war not only draws heavily on savings, but mortgages the future. Economically, wars are unproductive and that which is spent in their pursuit is lost. Wars against business depression must also be paid for. Economically, their only justification would be the stimulation and production of real wealth. Such wars also consume savings and encumber the future. There is virtually no evidence that they have been productive in the economic sense.

If this is the final phase of credit manipulation for recovery, it is because the truth cannot be indefinitely concealed. Debts are repudiated in two ways: directly and indirectly. Direct repudiation means bankruptcy. Indirect repudiation may follow the form of inflating money values. But since money and credit fulfill the same purposes, credit can also be inflated. The only essential difference between printing unsecured and irredeemable paper money and overextending the government credit is that the latter is less obvious and consequently its effects are delayed.

The cold truth is that modern nations have been carrying on that form of repudiation called inflation by over-borrowing for many years, and since the matter concerns us intimately, we may turn our attention to the situation in the United States, although there is tempting illustrative material in practically every country of western Europe, and in at least one country of the Far East.

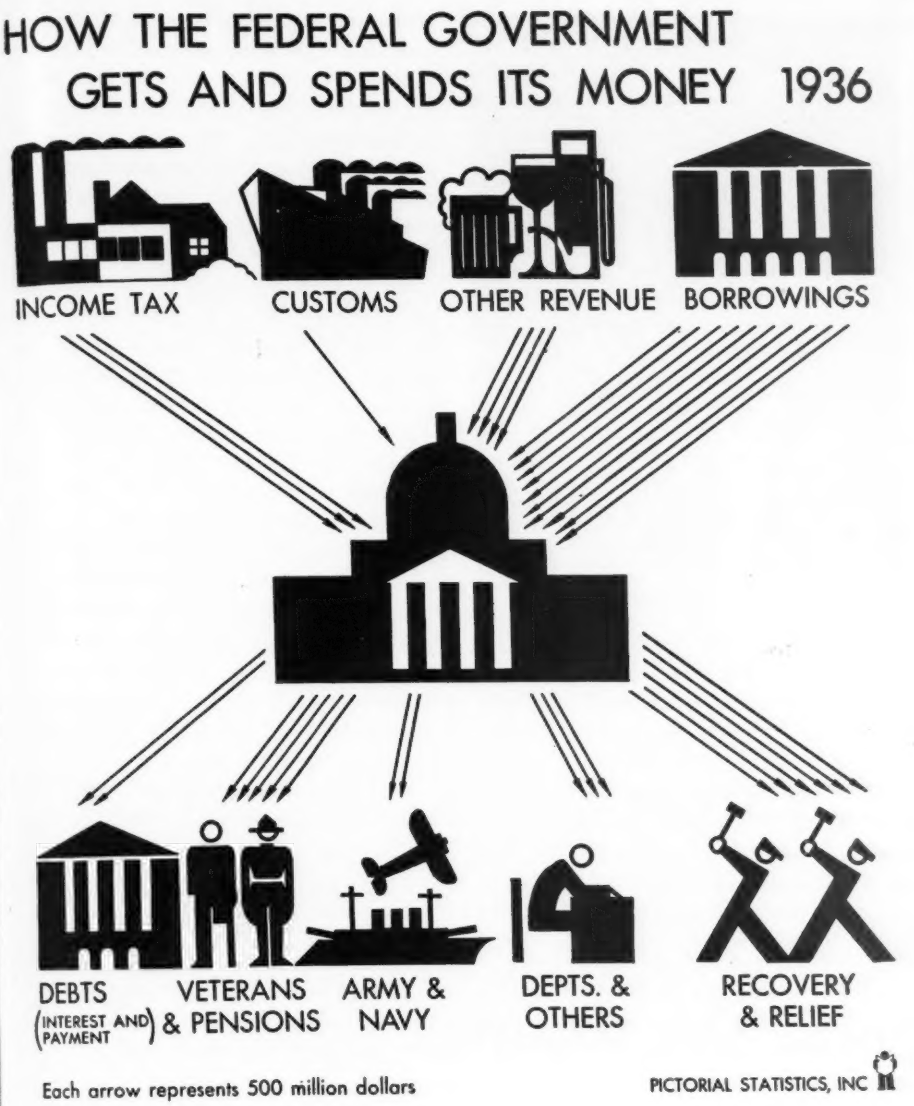
When the United States went into the World War the federal debt was approximately one billion dollars. Today that amount will scarcely meet the interest on our government obligations the grand total of which is somewhere near 39 billions. By manipulation, the interest rate appears to be low, but a large part of the debt is on a short-term basis which substantially lowers the average of the total charge.

When the present Governor of the Federal Reserve System came into office he is said to have made the statement that this country could be $50,000,000,000 in debt without approaching the danger zone! In relation to the capital equipment of this country and its productive capacity, such a statement might be justified, although even that question remains open. But a declaration of this kind does not take into effect the confidence element in credit. The supporters of such a theory, particularly those who relate it to a program for recovery, failed to reckon the force that would ultimately block their design. Managed recovery in terms of borrowed money, employed to distribute purchasing power, did not reckon on a buyer's strike in the investment market. It took years to generate this reaction, which finally expressed itself by a psychological wave of comprehension and the refusal of capital to invest. The waiting on the part of capital placed the advocates of "spending for recovery" in this dilemma: they either had to admit their errors or they had to force the investor to lend. Waiting is the very essence of business depression: the consumer waits, the distributor waits, the producer waits, the investor waits.

There is as yet no significant sign that as a people or a government, we are ready to face the facts. On the contrary, when the government had forced a considerable volume of its promises to pay into the banks—to the extent that it had borrowed more than fifty cents of every deposit dollar in the Federal Reserve System, a political device was employed which bears within it the seeds of real tragedy.

Social security is a concept which has strong appeal because it rests on an ideal justice. Some formal provision for social security was without doubt overdue in this country, but that fact did not justify the establishment of a basis which our economy could not support. The device which was finally adopted has turned out to be, in effect, nothing more than a new form of taxation. It is claimed that the Federal budget is now technically balanced because social security payments are being used for everyday operations. The beneficiaries have nothing in the much-talked-of security, except the promise of their government, for the law does not give them a claim on anything except that which is provided by appropriation.

There is nothing in the law which prevents the government from using the social security receipts to balance the budget. In theory, at least, these receipts were to have retired the public debt, after the payment of which, the Treasury would have been burdened only with the maturing demands of the aged and the unemployed. The present process does not permit the retirement of the public debt although it does forestall the immediate need of



From Casner, Garner, Gabriel, "Rise of American Democracy", Harcourt Brace & Co.

increasing it. The new borrowings now proposed in the amount of approximately four billions of dollars, may further threaten the purported budget balance. The net result of all this manipulation is to place a mortgage on the future which is no less ominous than that imposed by wartime destruction.

Reason demands then a frank facing of the question posed above: Suppose the new spending does not generate recovery, what then? It is not patent that the integrity of the government's promises to pay is fundamental to all promises to pay. This assumption underlay the widespread criticism of the repudiation of the gold clause in government bonds. If the gold clause can be repudiated, why cannot other clauses be repudiated?

In the case of Perry vs. the United States, Mr. Chief Justice Hughes delivered an opinion which included this statement:

"The Government's contention thus raises a question of far greater importance than the particular claim of the plaintiff. On that reasoning, if the terms of the Government's bond as to the standard of payment can be repudiated, it inevitably follows that the obligation as to the amount to be paid may also be repudiated. The contention necessarily imports that the Congress can disregard the obligations of the Government at its discretion and that, when the Government borrows money, the credit of the United States is an illusory pledge.

We do not so read the Constitution. There is a clear distinction between the power of the Congress to control or interdict the contracts of private parties when they interfere with the exercise of its constitutional authority, and the power of the Congress to alter or repudiate the substance of its own engagements when it has borrowed money under the authority which the Constitution confers.

In authorizing the Congress to borrow money, the Constitution empowers the Congress to fix the amount to be borrowed and the terms of payment. By virtue of the power to borrow money on the credit of the United States, the Congress is authorized to pledge that credit as an assurance of payment as stipulated—as the highest assurance the Government can give, its plighted faith.

To say that the Congress may withdraw or ignore that pledge is to assume that the Constitution contemplates a vain promise, a pledge having no other sanction than the pleasure and convenience of the pledger. This Court has given no sanction to such a conception of the obligations of our Government."

To be sure, the same opinion held that Jones had instituted an action for breach of contract in which he could recover no more than the loss he had suffered which was, in fact, nothing, in terms of the then purchasing power of the dollar. But the court was unequivocal in its condemnation of repudiation. If government borrowing by direct or indirect methods, goes beyond the reasonable probabilities of payment, the value of the promise is impaired even though the effect may be delayed by the semblance of balance in the budget.

Under such circumstances, the temptation to inflate is renewed and would at this moment be a menace were it not for such natural barriers as the unwillingness of the government to deliberately throw away the remnants of respect which now reside in the savers of capital. The political comfort given to a small section of wage-earners would straightway disappear if direct inflation were employed and even the most extreme of the planners knows that direct inflation would stir up an opposition in this country which would destroy any government that attempted it. This may be the principal reason why the security markets do not at this time reflect the uncertainty as to the value of the dollar. There may be a crumb of solace in the thought that direct monetary inflation is not likely since it would mean political suicide.

Again by natural processes, the attention of the American public is gradually being narrowed from the spectrum of promises to the focus of reality. If it is the intention of those in authority to socialize wealth, that design cannot long be concealed. If there is any likelihood that the institution of private property and the profit motive are about to be supplanted by some form of collectivism, capital will do one of three things: it will run if it can;

if it cannot run, it will hide; if it cannot hide, it will wait.

To envisage an extreme, capital goods in the form of factories, tools, equipment and all agricultural facilities could come under the complete control of the established governmental authority or authorities. What would happen to the savings of thousands of individuals which are represented by stocks and bonds and life insurance? Would such individuals acquiesce in any such program of confiscation? If we are to escape such eventualities we must shortly face these questions: What is the relation of sound credit to industrial and political solvency? What is the relation of both to security? Of what use is a law that promises security if the promising agent collects a premium for a future benefit and spends it for a present emergency? The said agent should openly and frankly declare his acts, explaining them to all persons involved without dissembling or equivocating, and frankly state that he bases his hope upon the ability of private enterprise to reccover to such an extent that real wealth will be produced in sufficient abundance to service the present promises. He should publicly recognize that those promises

Dr. Cadman

are not only written into an instrument called a bond but in the implied pledge to the dependents whose need will mature in volume some ten or fifteen years hence.

It is not unlikely that the point of greatest strain at this moment is the credit structure. Fortunately, it has behind it enormous resources. Unfortunately, the stress is not as calculable as it is with building materials. But there are unmistakable signs that stress and strain are beginning to be felt and it is equally evident that we are looking to the safety of the structure.

The future in terms of a form of government or an economic system is not clear, but certain principles are entirely so: credit is a measure of integrity, both for individuals and institutions. The violation of a promise automatically invokes a penalty. When the penalty is paid, confidence is restored. Any attempt to evade the penalty spells disaster. This is the moral law operating in the field of value. It is as old as the day when man stored a handful of seed for the primitive harvest or fashioned the first instrument for the kill. There is no exemption from the effects of its violation.

We must gird ourselves for the sacrifices which are necessary for recovery. The extent of the salvage, so far as economic values are concerned, will be in direct proportion to our willingness to cease spending imprudently now. There is still time to recapture our solvency. To the extent to which social politics jeopardize that solvency, real recovery will be postponed. The deliberate disregard of solvency is an invitation to revolution.

Getting the cash: the mental approach

For hundreds of years the collecting of money on overdue accounts has been considered one of the necessary evils of every business that extends credit to its patrons, Edward De Groot, Secretary of the Grand Rapids Association of Credit Men, points out in the Association's "Service Bulletin."

It is a part of the business that is looked upon by the average creditor with dislike and is given the least attention, he continues. It is possible for that reason that creditors in general have not developed their collecting abilities to the same degree that they have developed buying and sales ability.

Sales psychology has been stressed and developed to the point where it is difficult to resist the appeals of the trained sales organization. Buying has been put upon a most efficient basis. Manufacturing has been developed to a remarkable degree of economical production, but . . .

The collection methods of the business public as a whole continue in the same amazing inefficiency as prevailed twenty-five to fifty years ago. The psychology that is stressed so much in selling, and in buying, and even to a certain degree in production, is woefully disregarded in collecting. Yet collecting money on past due accounts is mostly a matter of proper psychology.

Let us mention three wrong attitudes most commonly displayed by creditors in collecting money: Depending somewhat upon the natures of the creditors themselves, one apologizes when he asks payment of a debt. Another threatens. Another insinuates that the debtor who does not pay is dishonest.

All three attitudes are wrong psychology. Apologizing when asking for money arouses *contempt* in the debtor. Threatening when asking for money arouses *antagonism*. Insinuating dishonesty arouses the debtor's *resentment*. None of these attitudes produces the cooperation so necessary in successful collection.

In selling, buying and producing, maximum results come from knowing how and why. In collecting money, results come from knowing why and how—WHY a debtor hasn't paid, and HOW to secure his cooperation, or HOW to enforce payment if cooperation cannot be secured. It is work for a collection-trained organization more than for a buying, sales or manufacturing organization.

"Please remit"

From "Postal Laws and Regulations," comes the oddity that government postal cards may carry writing, printing or advertising matter, but dunning messages to creditors are taboo. There is a fine for so using them.—"Paper Progress."

Meet the "Pro Rater"!

by W. B. LAYTON,

Counsel, Portland A. C. M.

Reports are heard from widely-divergent districts of a business operation of special importance to credit grantors. Perhaps propaganda of debtor relief—moratoriums and like products of the depression—has added incentive and impetus to the carrying on of this business.

The operator, who may sometimes be an attorney, makes it his business to seek out people who are in debt, and who may be susceptible to his sales talk. He very frequently obtains his clues from court records after collection actions have been started, but in many instances conducts a campaign of general solicitation.

The debtor is informed that the operator has the means of inducing creditors to accept less than the full amounts of their debts, or to make other concessions that, without his intervention, would not be granted. He learns from the debtor the identity of his creditors, and the various amounts due each, and he ascertains the general financial condition of the debtor. He may obtain a power of attorney to represent him, or he may even take an assignment of properties or wages. He bargains for his own compensation through the best means that seem to be available in each case. Sometimes the compensation is on the basis of a percentage of the saving to the debtor. More times it is to be taken out of the creditors' claims, and frequently, he is to be compensated by the debtor, after the debtor is relieved from the burden of his debts, or from some portion of them as agreed to.

After the operator has obtained the debtor's confidence, and his consent to act, the procedure is usually the same. Various creditors are contacted; they are told a hard luck tale, and it is represented to them that there are certain things only that the debtor can do, and is willing to do, and that if the creditors do not consent to the plan, bankruptcy will have to follow, and greater losses will result, etc., etc. The identity of the creditors, the agreement with the operator, and certain other important details are seldom truthfully disclosed. In a large measure the success of these operations depends upon the ability of the operator to make the creditors apprehensive, if not panicky. The object is to stampede creditors into quick acquiescence. The more successful of these operators are past masters in intrigue and psychology. They have everything to gain upon the success of their schemes, and practically nothing to lose upon the failure thereof.

The average creditor feels himself more or less helpless to cope with these situations. He is quite likely to follow the easiest course out. Quite frequently he is taken just as much by surprise as he is when he receives a notice of the unexpected filing of a petition in bankruptcy by a debtor whom he had favored, and from whom he had every reason to expect payment in full of his debt. The difference is that in the bankruptcy proceeding he can avail himself of the machinery for investigation, and the opportunity to co-operate with other creditors similarly situated for the best protection of the creditors as a whole. He also has the benefit of the criminal provisions of the Bankruptcy Act, and their deterrent effect. He has the knowledge that one creditor will not be favored over another creditor of the same class. He also has the opportunity to object to the granting of discharges, and the possibility of preserving the balance of his debt for future reckoning.

Many of the settlement schemes put over by these operators are not legal, but the creditors regard them as such, and the debtor rests serene in the belief that he has obtained a release just as valid as a discharge in a regular bankruptcy proceeding would be. Deception is the keystone of these operators' success, and it matters little to many of them if they should happen to deceive the debtor and his creditors as well. There is perhaps no situation more irritating to the conscientious Credit Manager than is brought about by these precipitous tactics, but, as cases alter circumstances, it is exceedingly difficult to lay down any general rules. The resourcefulness of the Credit Manager must always be depended upon.

These difficulties are increased by reason of the fact that there are an appreciable number of cases worthy of creditor sympathy and co-operation. It is consequently important to learn whether the debtor himself has been deceived and is acting in good faith, or whether he is a willing party to a fraudulent scheme and expects to profit at the expense of his creditors along with his agent.

There are certain general rules which might usually be followed, and which, if followed, would have a tendency in curtailing these practices. In every instance, and as a condition precedent to acquiescing in whatever the operator may propose, he should be compelled to furnish each creditor solicited with a complete list of the debtor's creditors, showing their names, addresses, and amounts. He should appreciate that the proposal of the operator is to become his trustee, and he shouldn't hesitate to find out everything about this trustee which he would find out if he were selecting him himself, or if he were voting with other creditors for his election in a bankruptcy proceeding. He should know all about the responsibility and integrity of the operator; he should not become a party to any plan when he suspects either the integrity or ability of the operator; he should ascertain if a trust account is being kept; where it is being kept; how it is being handled; whether there are bonds; whether all assets have been turned over; if the proceedings are supported

by affidavits, and many matters of a like nature.

Since the success of most of these schemes depends upon the cupidity of the great majority of the creditors, operators seldom follow the practice of calling the creditors together before the scheme is proposed, and frequently do not find it necessary to meet the creditors in a group after the scheme has been proposed. Therefore, it is a good plan to not act with respect to any proposal until it has been approved by at least a majority of the creditors after they have been given a full opportunity to judge the merits of the proposal for themselves, or until an opportunity is given to the creditors to meet and approve or reject as a group any plan which may have been proposed without previous consideration.

In centers where there are well established Adjustment Bureaus, owned and controlled by the creditors themselves, all these matters should be entrusted in the care of these organizations. The meetings should be held in their offices, and their facilities relied upon to bring out the facts out of which the best arrangements can be made consistent with the creditors' best interests.

Enough has been said to point out the viciousness of a moratorium or compromise procedure indiscriminately carried on and generally left out of the creditors' control. What is often fraud in fact is not fraud in law, but the result is the same in either instance. Creditors may scale down their debts, or even release their debtors in full. Their motives may be generous or they may be merely thoughtless. If either their generosity or their thoughtlessness becomes a rule, they cannot expect to remain in business for long. It is desirable that bankruptcy proceedings be avoided, and with proper and honest treatment many bankruptcy cases are avoided. The partnership relation between creditor and debtor must be respected if these results are to be beneficial and complimentary to the credit system. Pure volunteers and trespassers on that system are parasitical menaces. If every creditor would demand the reciprocation from his debtors to which he is morally and legally entitled, there would be no place in the system for those who teach that debts may be regarded lightly, that payment may be evaded, that creditors may be fooled and imposed upon, and that the debtor who pays his debts is a mere sentimental martyr to a lost cause.

Helping the independent retailer

by E. C. SYDNOR, President, Richmond Dry Goods Co., Richmond, Va.

For many years it has been clear to our company that it would be necessary for us to aid the independent smaller merchants whom we sell, in the better conduct of their business, as we have realized that a very large percent of the independent retailers whom we serve were not prepared to meet successfully the competition of their better-organized brother merchants of the towns and cities in the matters of display, store arrangement, attractive advertising, and some simple form of inventory control. This large number of retailers whom we sell, seem to convince themselves that they have not the means to keep their organizations thoroughly abreast with modern methods and improvements.

To help this situation, we decided a number of years ago to put in a service department whereby this large number of retailers might be helped by capable and well-trained men, for whose services we have made a nominal charge. These men are prepared to make window and interior display, together with modern interior layout and arrangement, and, also, are prepared to bring the business of the backward merchant up to a competitive basis with those retailers who have the capital to make it possible for them to maintain a service department on their own account, and therefore have been modernized.

Our achievement in this direction has been encouraging and the records show that through this service we have been successful in reclaiming many merchants who were in bad financial condition, and in bringing them back to a point where they are now successful and are definite assets to their communities and to their wholesale distributors.

It is our opinion that unless the wholesalers throughout the country, together with assistance from the state and national governments, quickly develop this or a similar type of service for that large number of merchants to which I refer, they will find within a comparatively short time, that these merchants through whom they have distributed their merchandise, will rapidly pass out of existence through inability to maintain themselves. Unless ways and means are quickly adopted in every section, this problem will eventually be just as serious to the wholesalers through the passing of their distributors as it is now to the smaller retailers themselves.

The wholesaler's salesmen seemingly have but little appreciation of the contribution that they should make to help educate their customers to better methods and more successful competitive conditions.

In order to correct this indifference it will be our plan in the future in making contracts with salesmen to set forth to them that it is just as necessary for them to make their proper contribution to the betterment of retailers as it is for them to perform any other duty for which they have been employed.

That we may better serve our customers our company invited to Richmond representatives from some of the most important sources of our supply to come and exhibit their wares and tell the complete story of their merchandise to our entire selling staff, all department heads, and some of the officers of our company. This meeting proved to be one of the most successful movements that we have ever attempted, as already evidenced by a higher type of intelligent selling on the part of our salesmen. I am happy to say that our salesmen to a man, were not only appreciative of but very grateful for, the opportunity of having first-hand knowledge of the merchandise they were to show. "Domestic Commerce"

HOWARD WHIPPLE, Vice-President, Bank of America, discusses some aspects of

The banking situation

SINCE the opportunity is afforded of putting before you certain phases of the banking situation. In so doing, I am quite aware, as you are, that ordinarily laymen are not interested in abstract discussions of the vicissitudes which afflict occupations other than their own. But in this case you are scarcely to be ranked as laymen. You, too, deal in credit. Further than that, banking and its handmaiden, money, are fundamentals of virtually every economic undertaking. As such the integrity and sufficiency of the banking process are matters of the utmost concern to everyone.

Though the banking problem is one of many facets, two at least are very much in evidence at the present time. One is the changed attitude toward banking; the other is a changing concept of banking. As yet both exist very little beyond what we broadly know as government circles.

It is because these attitudes and concepts will no doubt become more and more matters of public interest that it is fitting that they be discussed widely, that their worthiness be examined closely. Certainly banking has the indubitable right to put its position before the public.

In pointing out what seem to me to be some serious fallacies in these changes, it is no more than fair to say that in the confusion and dislocation brought about by an unprecedented crisis, it is not strange that those seeking methods of adjusting the economic machinery as a whole should sometimes mistake the exact function of a part of that machinery such as banking, and arbitrarily attempt to require it to do more or other work than it can do in view of its own nature and its relation to the whole economy.

It is a matter of general knowledge that, ever since the close of the World War, banking has been subject to two diametrically opposed attacks. First it was for making improper loans; now it is for not making loans. It is no wonder that the banker is a bit bewildered.

In days gone by it was perhaps an all too frequent practice for him to tell the other fellow how to run his business. You do not hear very much of that these days. Instead the newspapers are full of reports of this speech and that wherein someone tells the banker how he should run his business. So great is the output of this instruction that a man from the planet Mars should not be blamed for wondering how it is that bankers seem to know so little about their business and others so much.

With this advice is often coupled a somewhat ominous note. In a recent speech before a gathering of investment bankers by a member of an important government bureau this statement was made:

"Some one must take risks as part of our mechanism of financing industry. . . . Perhaps Uncle Sam may be forced to do it. . . . If you cannot reach these solutions, then the government may have to impose them upon you, because the government cannot endure unless it can keep the national economy going. Unwillingness to take risks is at least partially responsible for the dearth of new financing. Maybe the answer lies in the addition of new governmental agencies to assist distributing organizations to do the job which is really theirs. Inaction may mean that you will write investment banking off the books."

In this manner investment bankers are told what they must do. If the philosophy the ultimatum reflects were carried to its logical end, it would mean that the government may be obliged to tell the investing public what it must buy with its income and savings. In the totalitarian states, government does just that.

In Germany, for example, savings are all routed into governmental uses. Savings deposits must be invested in state obligations. Wages have been held down so that corporate earnings will be large. The dividends, however, that may be declared are limited and excess earnings must be invested in government securities. Only with special permission are corporations permitted to invest their earnings in plant expansion. Competition with government demands for the savings of the community is not countenanced. All savings are diverted to government use and are immobilized in military highways, war materials, and so on.

Another government official, in speaking of "a bill now before Congress to have the government take over the Federal Reserve Banks," said that "if banking is to remain in private hands, it must meet the credit needs of the country." In referring to an inquiry "about unsatisfied needs for medium and long-term credit for firms which have the capacity to repay their obligations," this official said: "No one knows the extent of this need, but there is a widespread feeling that credit is not readily available at banks on the character of security that many businesses have to offer, security that, in the opinion of the borrower, would furnish full protection for the lending bank."

Mark well that phrase, "in the opinion of the borrower." Then he goes on to say:

"I do not lay the responsibility for this feeling entirely to bank management, though I am firmly of the opinion that banks generally have not been particularly wise or energetic in meeting the credit needs of the country. Otherwise we would not have the great number of credit companies, factoring companies, finance companies, private and governmental. Upon the whole, the banker has not kept pace with changing credit requirements. This is probably due in part to bank supervision, those authorities operating largely as they have always operated, and without recognizing the necessity for longer time bank credit of a different character, have discouraged the banks.

"If a business enterprise needs medium or long-time credit, and can give sound value as security for the loan, it is his banker's responsibility to provide the credit, so long as it is within the convenient ability of the bank to provide it.

"I have long held the view that every honest business, however sound, is entitled to some credit and that the bank is the place to get it.

"Many people believe that the present recession is in part due to a lack of credit, and we should not allow that situation to continue.

"It is the money borrower who makes business, who hires and buys."

Those statements are challenging to say the least. Naturally enough they have caused widespread comment in the press and elsewhere. There is much disagreement, but unfortunately little analysis. In view of the public's interest, it may be well to attempt to make a brief examination of the various statements to see if they are in any way fallacious.

If we seek the essence of these charges against bankers — as distinguished from those lodged against bank-examining agencies—we will find it in the challenge they make to the bankers' capacity and willingness to lend. They also raise the question of the degree of absolutism attachable to the banker's obligation to lend and the borrower's right to credit.

Before examining these questions we should first look into the last quotation from the speech of banking's critic. He says: "It is the money borrower who makes business, who hires and buys."

As far as my observation goes, this statement has not received the attention it deserves. Is it entirely correct? Is it not the depositor instead of the borrower who makes business, who does so by buying and selling? Loans are not a direct means of making payment nor are they necessarily a primary means of stimulating business activity. Not until they have been turned into deposits are they available for use as money. It takes some fundamental desire to use money before the will to borrow it is created.

True it is that commercial deposits are in no small degree the proceeds of commercial-bank credit and that, at the present time, deposits deriving from that source are comparatively few and far between. But it is not true that commercial deposits are low or scarce. They have never before been so plentiful. But instead of having their customary business origin, they are now the result of an engorgement of government credit monetized by the banking process just as customer notes are monetized; and government credit is a parasitical phenomenon, not a basic or natural one.

Furthermore, in numbers depositors are a very much larger and less inhibited class of participants in the economy than borrowers. Under no stretch of the imagination can it be said that depositors' funds are under the control of bankers or anyone else. If depositors fail to use them, it is not the banker's fault. It will be interesting, therefore, to see to what extent depositors are using their funds. Although net demand deposits were higher in 1937 than at any time in our history, their velocity then was just about one-third of what it was in 1929 and around one-half the average of the years between 1923 and 1928 inclusive. On May 11, 1938 check-debit activity, another name for velocity, was 17%, below what it was for the same week a year ago. The total activity to date in 1938 was 19.5% below 1937.

Another statistical way of showing that it is the velocity or use of deposits that counts rather than their volume may be found in the different rates of decline of the following indices: Between 1929 and 1932 "prices fell 32 per cent; velocity of deposit currency declined 69 per cent; deposits declined 15 per cent." Patently it is the velocity or use of deposits that makes business hum. When they are comparatively idle, as they are now, business cannot fail to lag.

It is difficult to see how mere raising the already swollen level of deposits would affect their velocity. Only in so far as lending would bring new borrowers and therefore new spenders into the economy would the velocity of deposits tend to increase. But is there any certainty that this new class would spend in any greater degree than that vastly greater group of business people who already have money to use if they deem it advisable? At any rate, it is difficult to see how the banker is responsible for this situation; for he cannot tell his depositors how and where they may employ their funds nor can he do much in the way of creating desire in their minds to use them. We must lay the blame for depositor inactivity to other causes than the banker, popular though it may be to make a target out of that somewhat vulnerable individual.

Is not the same thing true in the field of borrowing? Is it not highly fallacious to assume that banks originate credit transactions? As a matter of practice, they simply don't. In the very nature of things, they cannot. Commercial banking finances the exchange of services and commodities. That is its reason for existence. In doing so it merely implements the sales of its patrons. It does not make sales itself. Transactions in credit are passive, not active, operations. A banker may advertise his wares to his heart's content, but he cannot coerce or inveigle into borrowing a patron whose shelves are stocked with goods he cannot sell. Nor has any farmer ever been able to make a cow drink no matter how much he extrolled the thirst-quenching qualities of the water he proffered.

More serious is the challenge involved in the statement "if banking is to remain in private hands, it must meet the credit needs of the country." Such a statement implies inferentially a lack of capacity or an unwillingness to supply credit. Lack of capacity can occur in two ways: credit scarcity and institutional inadequacy.

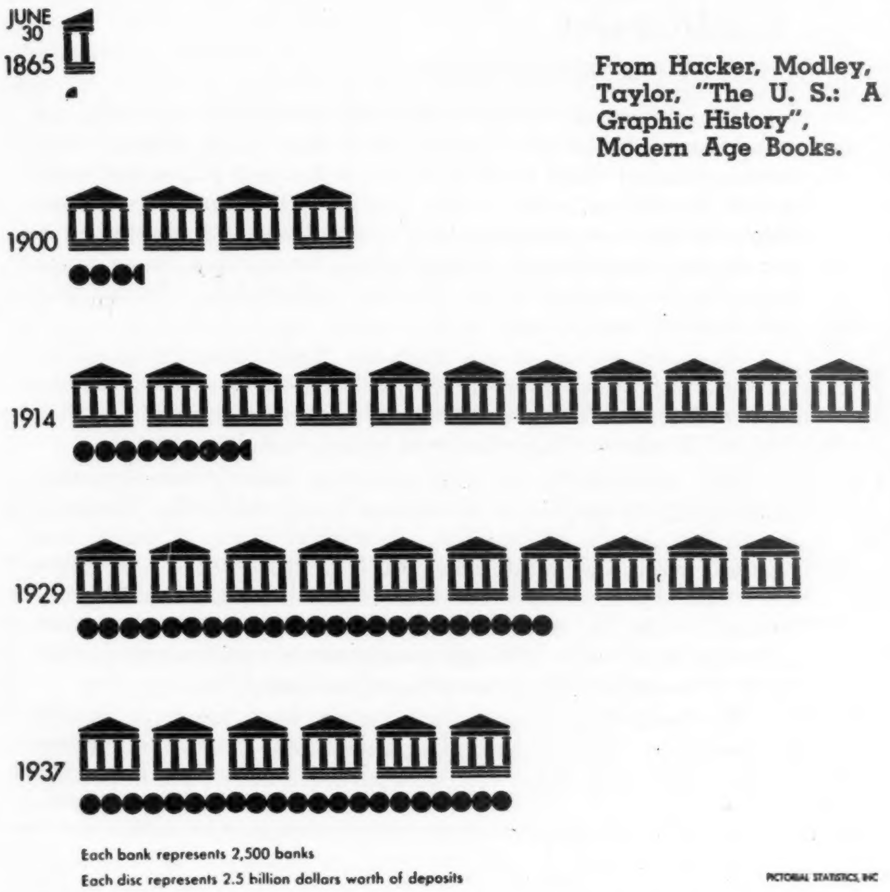
We need not spend much time on the question of credit scarcity. As already stated, never in American history has there been in the banking system so superabundant a supply of excess reserves with which to make loans.

This is admitted by the government official himself whose indictment of banking we are presently discussing. In the same speech he said: "There has never been a time when we had such abundant credit facilities." So well known is the condition that it would scarcely seem to be necessary to point out that so great in its inflationary throat had this excess become that, as a matter of prudence, the Federal Reserve Board took the unprecedented step of requiring member banks to double their legal reserves in the nine-months period ending May 1, 1937. Again it should be remarked that these excess reserves were not piled up as a result of banking's refusal to extend credit to legitimate borrowers; instead they were mainly the result of the government's prolific issue of securities.

Institutional inadequacy is a different matter. The American banking system is based on the unit idea, that is, on single-office banks. This permits the total banking power to be divided up into a myriad of small units. Some of these are so small in capitalization and resources that their ability to lend any sizeable sum is severely circumscribed.

On the other hand the smaller unit

NUMBER OF BANKS AND THEIR DEPOSITS



From Hacker, Modley, Taylor, "The U. S.: A Graphic History", Modern Age Books.

banks are almost invariably located in small communities which only in exceptional cases require lines of credit which exceed in size the maximum limitation of the unit institution. In large-scale branch banking, however, this circumscription does not exist; a borrower in the smallest community can command as large a credit as the largest borower in the neighboring metropolis. But as the point of institutional inadequacy was not raised by the government official, its elaboration is not necessary here; nor is it an issue of moment in this discussion.

The heart of the government official's indictment is contained in the suggestion that bankers are unwilling to lend. What are the facts in that regard? It is probable that never in banking history were bankers more anxious to lend.

Never have they had such capacity to do so. Excess reserves, the basis and substance of lending, were never more plentiful. As far as the cost of credit to the borrower is concerned never was it easier to borrow, for rates of interest are at an all time low. Competition for loans was never keener. If one banker refuses a legitimate demand for credit, not only one but several others will be glad to entertain it. And don't forget that the government is in the lending business, too. Yet for some strange reason its bulging resources have scarcely been tapped by supposedly credit-starved borrowers.

Some competent people, it is true, do think that rates are so low that bankers are afraid to lend because there is no adequate margin of profit with which to cover ordinary risks of doing business. As is only too well known, interest rates are artificially low and kept that way by governmental manipulation. But it should never be forgotten that when natural checks and balances are prevented from functioning, nature rarely fails to break its bonds in unexpected quarters. Is it not possible to suggest that perhaps an unexpected effect of artificially low interest rates may be the hesitancy of bankers to lend at rates which are not sufficient to cover inevitable losses, to say nothing of expenses?

But there is another effect on the opposite side. Mr. Leo. T. Crowley, Chairman of the Federal Deposit Insurance Corporation, in his speech before the Oklahoma Bankers Association on May 7th said: "Reduced earning rates on acceptable bank assets have led many bankers to seek speculative sources of profits."

While this situation is the antithesis of the hesitancy of bankers to loan because they fear low rates will not cover losses, the accusation that bankers, in their need for profits, will entertain speculative credit-risks should demonstrate how anxious they are to make loans. To say that they are not is to say that a hungry man refuses food when it is put before him. Unless bankers make loans, they don't eat; and nobody knows it better than they do.

But hungry as many bankers are, the prudent ones, those who lived through and have not forgotten the lessons taught by the banking gethsemanes of the early nineteen twenties and thirties, will not ignore proven banking principles nor attempt to make borderline loans for the purpose of promoting what could possibly be the specious appearance, rather than the sound reality, of business prosperity. And it is no more than fair to say that this caution is something more than mere desire to keep their own skins intact. It is rather a recognition by bankers of their position of trusteeship.

The question of "unsatisfied needs for medium and long-term credit for firms which have the capacity to repay their obligations" was raised. With it the statement was made that: "No one knows the extent of this need, but there is a widespread feeling that credit is not readily available at banks on the character of security that many businesses have to offer, security that, in the opinion of the borrower, would furnish full protection for the lending bank."

We may stop for a moment to examine the phrase, "in the opinion of the borrower." To anyone who has been responsible for loaning his own or other people's money safely, it brings a new and rather startling element into lending theory. Is it to be understood that it is good practice for the borrower to set the terms on which he will permit the owner of funds to loan his own money? Would it not be just as logical to enact laws requiring the criminal to sentence himself? Few

banks would last very long if they adopted that practice.

The question of medium and long-term credit is a moot one, nevertheless. In a simon-pure commercial banking system there is virtually no place for them. The trouble is that we have no such thing as simon-purity. We have not had ever since commercial banks began to accept time and income deposits. Time deposits, being capital accumulations, bring an element of rigidity and, at times, more or less constant acceleration into deposit levels. The result is that there are chronically more funds to loan for simon-pure commercial purposes than there are applications of that character. This in turn anaesthetizes the banker's fears that unless he keeps his total loan portfolio in the most liquid condition possible, he will get into trouble. The more or less constant acceleration or rigidity in the levels of total deposits is also responsible for the incursion of what are nominally called commercial banks into the field of investment. They are inclined to feel, though a certain degree of mental inanition, that as long as deposits do not sink below a certain level, they are safe in freezing a fair proportion of them into investment or capital-loan channels.

That is the fallacy underlying the criticism that both bankers and bank examiners are not aware of the fact that credit requirements have changed. In reality have credit requirements changed? Any undeveloped country with an expanding economy is always in need of capital in some quarters. That lack has usually been at the bottom of most of our banking troubles; for the accommodating American banker has habitually tried to stretch credit into capital. He all too often tends to forget that profits are necessary for the discharge of a capital loan unless it is realized upon by transfer to another creditor. But not only are transferee-creditors wholly lacking at times but so are profits. When loans of this character cannot be realized upon, trouble ensues when deposit levels decline.

In any event, the demand for capital loans has not changed in principle but only in the purpose to which the credit is put. It used to be largely to buy real property. Now it is to build or equip a factory, to provide working capital or to shift debt from a weary creditor and other such purposes.

But no matter what the purpose for which the credit is to be employed, whether for factory enlargement, addition to working capital, the purchase of land, beauty parlor equipment or washing machine, the demand of the borrower is only half the story. The other half is the depositor's side. It is from his unemployed funds, as reflected in surplus reserves, that loans are made.

Suppose we grant that credit requirements have changed. But if they have, what about the nature of depositor needs? Has it changed any? It is only a bare five years ago that depositors showed with excruciatingly painful clarity that when they want their funds, they want them; and they pay no attention whatsoever to bankers, to borrowers, to government officials or to anything else but their own ruggedly individualistic interest. Depositors have not changed. When they do, it will then be time to talk of changes in the principles of credit extension. If bankers think the time is scarcely ripe for that, they cannot be blamed.

The principles developed through the painful experience of more than a hundred years may not be lightly discarded. Bankers have no right to make loans which they cannot reconcile with their consciences or their judgment regardless of who does the urging or what the exigencies ef the case may be. But even if they would, neither bankers nor government have found ways of obviating the unwillingness of the borrower to go into debt when he does not wish to. After his experience in the Great Depression, his hesitancy is not unnatural.

It does not answer the question to cite the experience of the Reconstruction Finance Corporation in handling time loans, industrial loans and so on, nor the growth of credit companies, factoring companies, finance companies, private and governmental. Nor is it true, as asserted, that "if a business enterprise can give sound value as security for the loan, it is his banker's responsibility to provide the credit." The Reconstruction Finance operation is not a banking operation in the true sense of the word. Its credit extensions are made from funds returnable at their owners' demand as are vir-

Credit sales and repossessions

Experience has shown that installment selling falls off much more drastically in hard times than cash selling. Currently, general retail trade is 10 to 15 per cent below last year while installment sales have declined 33½ to 50 per cent. There is an obvious temptation under these circumstances to encourage time sales through relaxing terms. But easier terms mean more repossessions, a recent editorial in "Advertising and Selling" points out.

A recent report of the National Association of Sales Finance Companies indicated that 1937 automobile repossessions totaled 94 per 1,000 installment sales, almost double the 1936 figure. A substantial cause was failure to tighten terms.

The relationship of repossessions and terms appears graphically in the Credit Managers Yearbook of the National Retail Dry Goods Association. In a given group of purchases studied, where down payment was less than 10 per cent, there were 600 repossessions; between 10 and 14 per cent, 270; between 15 and 24 per cent, 120. Where 12 months time was allowed, there were 370 repossessions; 19 to 24 months, 295; 13 to 18 months, 160; 12 months or less, only 100.

The temptation of easy terms to net more business should be resisted. The resulting repossessions destroy far more dollars of goodwill than any sales involved may earn in profits.

tually all bank deposits. Obtaining its funds either from the Treasury or through the sale of its debentures of definite maturity through the capital market, it is more a transaction in brokerage than in banking. And although it has been skillfully handled, any losses it may suffer are underwritten by the government's taxing power. Banks are not and cannot be so situated.

The franchise banking derives from the public creates in the banker a deep sense of his obligation to society. His responsibility to the community invests him with the character of a quasi-public servant. That responsibility nevertheless has definite limitations. Several fallacies concerning these limitations are deeply buried in the public mind through unthinking habit. One concerns the responsibility of the banker to provide credit. The fallacy in that regard lies in the assumption that the funds in the banker's charge belong to the community, that the community or the individuals separately comprising it have the right to demand that credit be extended to them. Under the debtor an creditor relationship which banking enjoys, it no doubt has the privilege of loaning the idle funds left by depositors; but it has no obligation to do so. Instead banking's obligation is solely directed, legally as well as morally, to the safe return of the depositor's money to him individually, not collectively.

As the Wall Street Journal has recently said, "Bank credit is not a public utility service to be had as a right for the asking, like railroad, electric or telephone service. Banks are not 'common carriers' and the 'public interest' with which they are affected is precisely the opposite to that which affects a common carrier. The 'public interest' is concerned primarily and almost exclusively with the safety of the depositor, not with the 'convenience and necessity' of the borrower."

No doubt it is true that no one knows the extent of the need for medium and long-term credit. Everyone does know that in periods of depression capital is neither maintained nor accumulated to the extent needed by a virile and growing population. In recent years formation of capital has been negative rather than positive.

According to a study by the National Bureau of Economic Research net capital increased by eighty-eight billions of dollars in the twelve years ending with 1930. This was at the annual rate of seven billion three hundred and sixty million. But in the five years from 1931 to 1935 inclusive such capital not only failed to increase but decreased for the period to the extent of fourteen and a half billion dollars or at the annual rate of nearly three billion a year. Undoubtedly there are deep holes in our capital terrain which need filling; but the cause for their failure to be filled must be laid at other door than bankers'. Capital is accumulated through operation of all elements of the economy, not through the writing up of book-credits by the banking fraternity.

Yet is not that what we have been attempting to do? What else can you call the sale of huge blocks of government securities to the banking system? government bonds do not represent additions to the savings of the nation. They represent debt artificially created and nothing else. The monetization of that debt through the banking process represents in large measure the creation of purchasing power at a faster rate than goods can be produced. In more sober times we call that process inflation. It has lately been more fashionable to call it reflation; but it amounts to the same thing.

Coupled with that action is our monetary devaluation, our cheap money policy, and our exchange manipulation. These are all evidences of a plan to raise prices by artificial means. But as far as real wealth goes, they are just as effective in its creation as is the attempt of an inebriated gentleman to raise himself by his bootstraps and just as ridiculous as the Scotchman who tried to warm himself by blowing on a thermometer. They do not represent any addition to the yardage, but merely a contraction of the yardstick.

The point is that we have been attempting to create a synthetic prosperity through reliance on mathematical devices. These in turn greatly affect banking and everything else. The criticisms of banking we have been discussing are in reality the mild but morbid excrescences of a far deeper seated disease than mere conflicts of opinion as to the willingness or unwillingness of bankers to lend and the rights of borrowers to credit. That disease is the modern miasma that the banking system no longer exists for the purpose of financing trade alone but now is to be considered as an instrumentality for the attainment of government ends. This is a phenomenon which is not peculiar to America alone. It is worldwide in extent: and a consequence of the Great War.

Funds for the prosecution of the war were obtained by all nations through resort to the device of selling bonds to the commercial banking systems. Since the war, and particularly since the Great Depression, the process has been used to finance budgetary deficiencies. One effect has been the creation of a new paradise for the spenders; for what better device could be had than that of borrowing as a means of postponing or concealing the bitter pill of taxation which must eventually be swallowed.

And what a paradise it is, astronomical rather than terrestrial. To illustrate it, all one needs to do is to chronicle a few recent events. Fearful of the inflationary possibilities existing in the huge volume of excess reserve belonging to the banking system, the government, acting through its appointees, the Federal Reserve Board, doubled the legal requirements for reserve maintenance on the part of member banks. This action was completed by May 1, 1937. Excess reserves were reduced to $887,000,000. Before long they began to rise again. By April 13, 1938 they amounted to $1,727,000,000.

This mastodonic total would seem to be ample for all legitimate business needs which appear in the immediate offing. Yet on April 15, 1938 the Board of Governors of the Federal Reserve System released the following statement: "As a part of the government's program for encouragement of business recovery, the Board of Governors has reduced reserve requirements on all classes of deposits for all member banks, effective at the opening of business on April 16, 1938. By this action excess reserves of member banks will be increased by about $750,000,000.'"

Coupled with this statement was an announcement that the inactive gold account of $1,400,000,000 would be

(Continued on page 28)

What's the matter with the coal industry?

by J. E. SUGDEN, Jr., President,

Steel City Gas Coal Co., Pittsburgh, Pa.

First, let us sketch briefly the history since the World War. You will recall that there was a shortage of coal in most of the countries of the world for several years following the Armistice. In 1920 the United States exports of bituminous coal set an all-time record, which was, of course, materially aided by strikes in England during the same year, and coupled with the fact that German production was very low and French mines had not been reconditioned.

The year 1922 witnessed a serious strike in the United States; in 1923 and 1924 the Ruhr was occupied by the Allies; in 1925 the allied troops evacuated the Ruhr and the same year witnessed the return of Great Britain to the gold standard. It was also during this year that the devastated French mines were again rehabilitated, and Polish coal, which had found its way into Germany to the extent of a six million ton a year peak, ceased entirely. The year 1926 marked another strike in England, which reflected higher prices in the United States, both in that year and in 1927.

Conditions were rather stable until the stock market crash of 1929, which was followed by a depression which, of course, was felt by all industries in the United States. The year 1932 was noted for a conference of the British Empire, held at Ottawa, Canada, which greatly increased inter-empire trade. The year 1933 marked the effective date of the reciprocal trade agreements between the Scandanavian countries and Great Britain. This, of course, resulted in Polish competition in other markets. The same year marked the formation of the National Recovery Act, known to the general public as the N. R. A., and strange to say, this experiment resulted in both Germany and Poland exercising rigid Government control of the coal industry in their respective countries.

The relatively unimportant years of 1934 and 1935 are only mentioned in connection with the sanctions ordered applied against Italy, which were not carried out with any degree of effectiveness, and the passage of the Guffey Coal Bill, which was later declared unconstitutional. The year 1936 did not hold out anything of importance, but the year 1937 saw the new Guffey coal legislation put into effect.

With less than two months of operation, it was attacked from so many angles that January 1938 found it in its death throes. Then, in less than a month it collapsed entirely and the industry went back to cut-throat competition, the disposition of coal at giveaway prices, and also bankruptcy and reorganization for many of the operators. Therefore, the history referred to above clearly points out that political, economic and financial disturbances complicate world conditions and trade.

There is possibly one other factor that should be mentioned, but it is not of so great moment to the United States as it is to more distant countries—and yet it must be given its proper place when you consider the coal industry as a whole—and that is, new centers of coal production.

European Russia produced 66,000,000 tons in 1934; Belgium reported an increase of 4,000,000 tons; the Netherlands a gain of 10,000,000; Asia doubled her production; China tripled hers; Japan showed an increase of 23,000,000 tons; India reported 6,000,000 more tons and Africa an increase of 4,000,000 tons over previous years.

But let us get back home, where we are confronted with three factors that have tended to lessen the production of coal.

1. More efficient use of coal;
2. Increased use of fuel oil;
3. Greater development of water power.

Did you know that the coal saved throughout the world by the present more efficient use since 1913 amounted to about 200 million tons in 1934? According to the Mineral Year Book of 1935 fuel economy has made the following strides here in the United States:

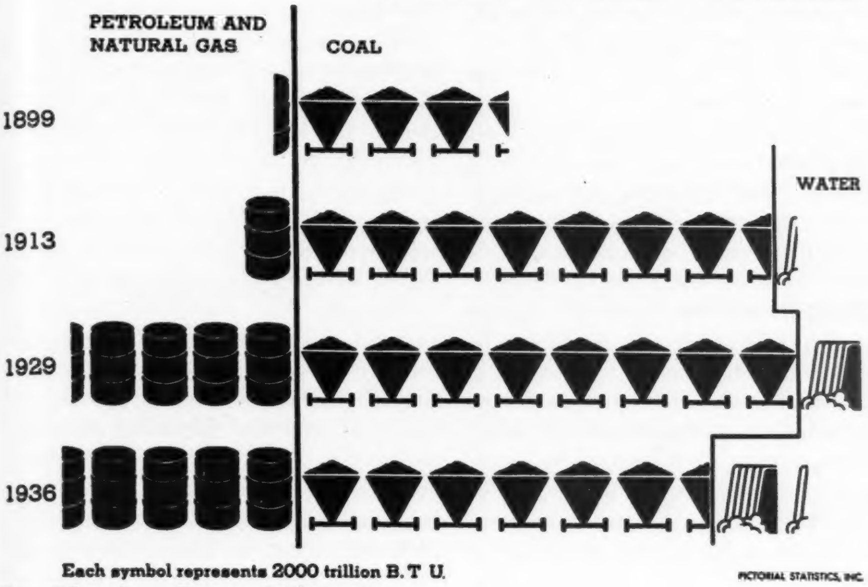
	Pounds	Saving
Steam Railroads:		
Pounds per 1000 gross ton mile freight service:		
Average 1919-20	170	
Average 1934	122	28.2%
Pounds per passenger train car mile:		
Average 1919-20	18.5	
Average 1934	15.2	17.8%
Electric public utility power plant:		
1919—Pounds per KW. hr.	3.2	
1934—Pounds per KW. hr.	1.5	53.1%
Iron & Steel, pounds coking coal per ton of pig iron:		
1918	3.577	
1934	2.927	18.2%

Second: As to the increase in fuel oil: Did you know that world production of oil had increased fourfold in the period of 1913-1934, or from 381½ million barrels to 1 billion 522 million?

According to Lloyd's Register in 1914 coal was used in 88.84% of vessels, while in 1934 it had been reduced to 51.69%, while oil burning vessels in 1914 were 2.65%, in 1934 the percentage had grown to 30.28%.

Third: How about water power? In a report of the Geological Survey dated April, 1935, comparable figures for the world for 1913 and 1934 were 13 million horsepower and 55 million horsepower, respectively.

SOURCES OF ENERGY IN THE UNITED STATES



From "Petroleum Facts and Figures," American Petroleum Institute.

In arriving at the total amount of coal, petroleum and water power available in terms of coal, four barrels of petroleum have been considered the equivalent of 1 metric ton of coal, and one hydraulic horsepower for one year as equivalent of 3 metric tons of coal.

Now, here are a few of the reasons why the coal industry is in its present condition. First, freight rates: The base rate on coal goes back to August of 1920, which, if you will refer to the history outlined above, you will note was when the United States had its peak of export trade, was aided by English strikes and low German production and little or nothing being produced by France. This was the year that coal sold at the mines in Western Pennsylvania from $2.50 to $10.00 per ton, and coke from $4.00 to $24.00 a ton.

The freight rates today, plus an emergency freight rate, range from a few to many times the value of the coal itself. For an example: A few years ago when Slack in Western Pennsylvania was selling at 10 to 15¢ a ton and was being shipped to Buffalo, N. Y., the freight rate on this Slack was $2.24 a ton. The only exception which the railroads have made in the last few years was the granting of a special rate on nearby mines to great metropolitan areas to combat truck competition.

Now let us look at the lake cargo rates. The Pittsburgh rate for coal from Western Pennsylvania to Lake Erie ports, such as Erie, Ashtabula and Cleveland, is $1.56 per net ton, plus 9¢ per ton dumping charge, which represents a haul of 130 to 200 miles. In the past, most of the cars which went to lake were returned loaded with iron ore to the metropolitan districts of Youngstown, New Castle and Pittsburgh, or in other words, the railroads were guaranteed to a very large extent revenue freight on both movements to and from the lake, using open top hopper and gondola equipment.

But let us look at the southern railroad rate situation to lake. Their rate is $1.91 a ton, plus 9¢ per ton dumping charge, on a haul estimated at 300 to 600 miles to the lake front, and then return the cars empty, or in other words, for the 35¢ additional, the railroads must haul the coal two or three times as far for revenue freight only to the lake and must return those cars, with full crews, empty back to the mines for no charge whatever.

New installations have been introduced into operation, such as stokers, pulverizers and new type burning apparatus, which requires a specially prepared coal and which has meant that the operators have been compelled to equip their mines with washeries, air cleaners, shaker screens and boom loaders in order to prepare and size the coal necessary to be burned in the special equipment. For pulverizers, it might be a ⅜ or ½" dust, but which must be washed and air cleaned. It might be a ½ × 1" Pea size stoker, or Stoker coal with a certain percentage of fine coal added. Some operators have installed mechanical loaders, cutting machines and other equipment at the expense of hundreds of thousands of dollars, and then immediately passed the saving on to the consumer.

Then there is the question of labor, which means that either the entire bituminous field should be unionized, which, of course, would mean that territorial favoritism would have to be abolished and a uniform wage agreement made compulsory. Cutting machines, mechanical loaders and ununiform sized wagons do not assist in contributing to uniform costs of production at the mines. Furthermore, mechanical loaders, to a very large extent, make it impossible to load coal without the use of washeries or some other cleaning devices, which usually are very expensive and increase materially the cost of producing the coal, and at the same time lay off a considerable number of miners.

Another point that has to be given consideration is the loss of markets. Did you know that we have lost 50% of our Canadian market in the Province of Quebec? In the year 1928 we exported to Canada for the Province of Quebec 1,300,000 tons, but now you will find boats coming in from Scotland with various grades of Scotch coal. Germany, Russia, and Indo-China are shipping a considerable amount of anthracite coal which is mined 14,000 miles away from our market and replacing Pennsylvania anthracite mined within 300 miles of the Canadian frontier. Another disadvantage is the increase of Canadian custom rates, which in 1913 was 53c while today it is 75c.

Western Pennsylvania has also lost a large proportion of the lake tonnage, and owing to cheap ocean rates coal from the Southern fields can be brought to the Eastern Seaboard then trans-shipped into boats and laid down cheaper in New England markets than we can ship all rail.

The real point at issue which largely contributes to the present status of the coal industry is the matter of taxes. The compensation rate in 1916 was

$1.60 per $100.00 of payroll, whereas the present rate in 1938 is $9.03 per $100.00 of payroll. There is at the present time a 1¢ a ton tax assessed under the provisions of the Guffey Coal Act, and there is another assessment of approximately 1¢ a ton to maintain the board located in each of the 22 districts; then there is Social Security of 1% of the payroll; Old Age Pension of 2.7% to the State and 3/10% to the Government for unemployment.

There are taxes on the property of township, school, road and county. If you are incorporated in the State of Pennsylvania, there is a tax of 5 mills on each $1.00 of capital invested. At the same time the Government takes $1.00 per $1000.00. There is a mercantile tax for the privilege of doing business, based on the volume of sales. There is a tax on every telephone and telegraph item, which in turn goes to the Government. Every report requested by the Government or the local board, Unemployment, Social Security and Old Age Pension, State and Government reports of capital stock, income tax, etc. requires notary fees of 50¢ per report, which has now got to be a sizable item.

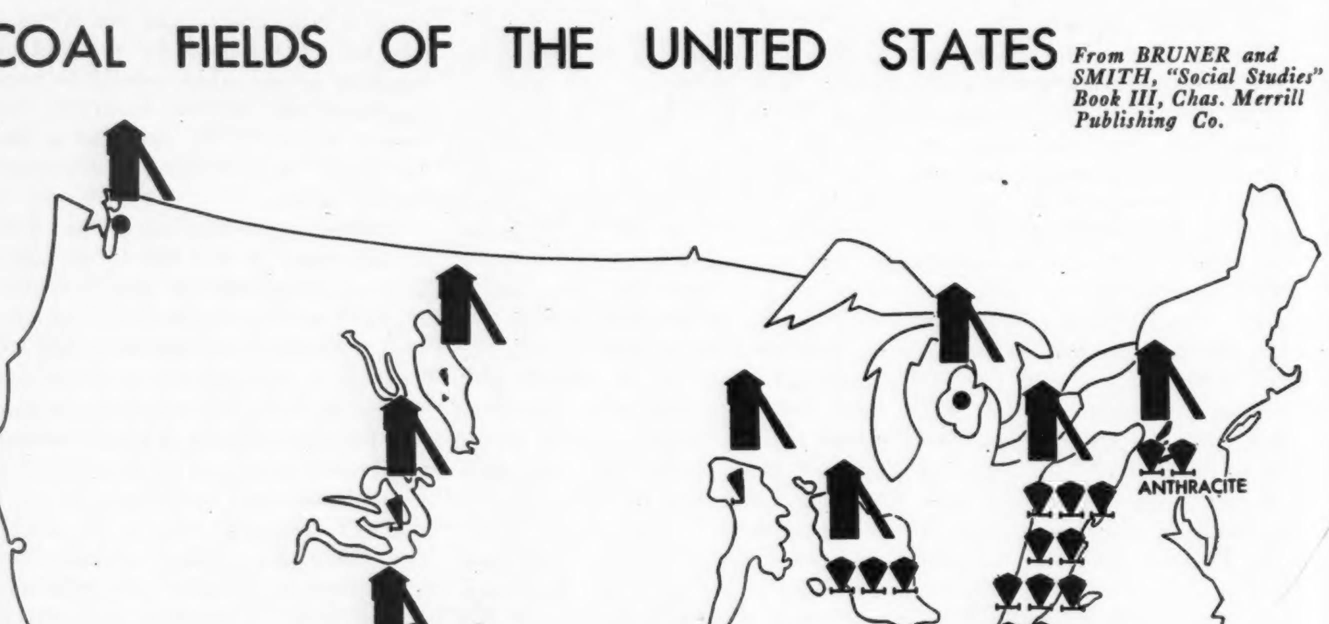
If, after all this, there should be a net income, the Government demands, on a regulated basis depending on earnings, of anywhere from 8% to 15%, while the State of Pennsylvania demands 7%. There is also in the State of Pennsylvania corporate loan tax of 5% on the first $1000.00, 1% on $1000.00 to $2,000.00, and ½ of 1% on anything above $2,000.00. Then, if there happens to be a few dollars left of undistributed profits the Government again comes in for anywhere from 7 to 27%.

Can any company remain in business and be taxed on a loss, as the price offered for coal today does not even guarantee payroll costs, let alone power, compensation, insurance, taxes and necessary supplies. It is a sad situation when you look around and see the large coal companies reporting a deficit of anywhere from a quarter of a million to several million dollars each year, stockholders not being paid dividends, miners being thrown out of employment by mechanized units and every ton of coal being produced at a loss, to say nothing of the companies who have and are going through bankruptcy and other reorganizations.

Certainly the coal industry has a rightful place among the other industries of our country, and therefore this article was written with the idea in mind of placing the facts squarely before the general public in an effort to make the coal buying public conversant with the true situation. Whether or not the Guffey coal legislation will ever be revived and prices

COAL FIELDS OF THE UNITED STATES

From BRUNER and SMITH, "Social Studies" Book III, Chas. Merrill Publishing Co.



Each car represents 25 million tons output, 1936

● Represents less than 2 million tons

PICTORIAL STATISTICS, INC

correlated between various producing districts is still a much mooted question, but since nothing has been found to date to take the place of coal as a low cost energy producing product, this vast industry, employing billions of dollars of capital and hundreds of thousands of employees, should not be permitted to pass out of existence.

The wholesaler is not through

by HENRY MATTER, Sec. Wholesale Dry Goods Institute.

For as long as I can remember, there have been predictions that the wholesaler is disappearing; that his days are numbered. While they have encountered difficulties, they are not unique in this respect. Every type of business has been confronted with perplexing problems. Despite an uphill battle, wholesalers still are with us, and will remain as a dominant factor in our distributive processes. His position is becoming more and more secure.

My reasons for this firm conviction are, first: the realization on the part of manufacturers that it costs less to distribute through wholesalers. The high cost of selling direct, as compared with selling through wholesalers, was convincingly illustrated during the period of falling volume and prices.

Experience has taught that the transactions involved in placing the goods of our factories in the hands of the consumer cannot be eliminated; they definitely exist whether performed by the manufacturers themselves, or for them by wholesalers. The costs incident to these transactions are ever present and, obviously, it is less costly for a number of manufacturers to divide this expense—by utilizing the facilities of wholesalers—than for each to be burdened with the full cost.

My second reason is the prevailing sentiment of our lawmakers to outlaw uneconomic advantages enjoyed by certain groups at the expense of others.

But, unquestionably, the most significant and encouraging development for wholesalers—and which I know is genuinely appreciated by them—is the earnest desire of manufacturers to cultivate a better understanding through cooperation.

12,000 tons of gold!

(*Continued from page* 10)

has taken place generally over the world. In England and Canada the de-facto reduction has been nearly the same as the legal reduction in the United States. Because of revaluation and increased production world gold reserves are today $24,000,000,000, twice what they were in 1929.

The deflation and falling prices of 1930 to 1933 were attributed in many quarters to a world shortage of gold, a contention which I feel has not been adequately proved. But, even if it is granted that the world's gold stock in 1930 was inadequate to sustain the existing price level, this condition no longer obtains. If properly distributed and effectively used the monetary gold of the world is sufficient to form the basis for an international gold standard.

Does it follow that the world will some day return to gold? My own bias is toward some form of international monetary standard rather than a policy of economic nationalism in the realm of money. If an international standard is established there is apparently a better prospect that the standard will be gold than any other commodity.

The achievement of a stable economic system either at home or abroad is not to be attained merely by the adoption of some universal medium as money. We must have certain prerequisites which are primarily non-monetary in character. In the international field, I should list these as: first, world peace; second, a re-establishment of world trade; third, a restoration of normal capital movements; fourth, extension of the co-operation between governing monetary authorities already begun; and fifth, national equilibrium must be achieved—budgets must be balanced and costs and prices brought into harmony. The first, peace, may appear at present to be more of a hope than a possibility. The second, achieved so far as it is being achieved at present through the adoption of reciprocal trade treaties, is a process of almost endless negotiations under heavy group pressures.

The revival of capital movements on a more normal and sane basis encounters two general types of difficulty. In the first place the irrational pouring out of American funds in foreign investments during the nineteen-twenties and our experience with the war debts have soured the American people on foreign loans. In the second place, foreigners who have invested in this country have done so largely because of fear for the stability of their own economies or with a desire to speculate upon the possibility of rising security prices in the United States and not for permanent investment. While scared money is hurtling across the world in billions, the long-term prospects for international economic stability upon which sane capital movements rest are almost impossible to determine.

In the field of international monetary co-operation, prospects for extension appear to be chiefly in the widening of the specific areas of influence attached to the pound, the dollar and the franc. The totalitarian states, both Fascist and Communist, with their strong exchange controls, appear at present poor candidates for partnership in a world monetary order. Some progress has been made, however, the tri-partite agreement between France, England and the United States has been a wholesome measure even though France has not been able to balance her budget and has been forced into a series of devaluations since the autumn of 1936.

The importance of a sound fiscal policy as a condition for maintaining a stable currency is illustrated by the experience of France in recent months. The fall in the franc has been due primarily to internal not external causes.

Sterilization of gold and changes in reserve requirements are striking evidence of the extent to which we are engaging in monetary management. When the dollar was devalued in 1934, a Stabilization fund of two billion dollars was created. Doubling of reserve requirements made three billions of imported gold impotent to serve as a basis of credit. Sterilization locked up an additional one and one-fourth billion. At the peak therefore we held six billion dollars—6,000 tons—of what may properly be described as impounded gold. "Managed Money" with or without a gold base has been much discussed in recent years. It is interesting to note that England and Sweden, where monetary management has been most consciously practiced, are holding relatively large gold stocks.

Future monetary management in this country should be based upon three principles. First, retention of gold as a basis for currency; second, development of improved techniques; and third, making changes only according to well-defined and predictable rules. The first principle is now in force. Our paper currency is not redeemable in gold for domestic circulation but nevertheless it is firmly anchored to 12,000 tons of gold. The development of improved techniques of credit control by our monetary authorities may be anticipated as the result of experience. Established principles should be constantly followed in order that business enterprise may understand, as closely as the circumstances of a changing world will permit, just what action will be taken by the governing monetary authorities under given conditions. When such a situation obtains, bankers and business men will be in a more favorable position to define their own policies and intelligent long-term forecasting of the future of specific industries is more feasible.

Credit unions

At the end of 1936 there were nearly 5,500 credit unions in existence in the United States, of which 66 per cent had been formed under State laws and 34 per cent under the federal act. During the year, these organizations made more than a million loans estimated at a total of $112,056,741. Total assets were placed at over $90,000,000 and the total membership at nearly 1,200,000 persons. These estimates were based upon reports to the Bureau of Labor Statistics covering some 83 per cent of the whole number of associations.

About those "slow pays"

Usually it's the bills they have to pay ahead of yours that make you wait. A Credit Interchange Report will tell you how large they are and how they are being paid. It will give you the "tip" on what to do with your account or that order you are holding.

Article approved

Dear Mr. Layton:

It has again been my privilege to read with pleasure your interesting article in this month's (June) issue of Credit and Financial Management.

I am heartily in accord with you on this question, as I have never been in favor of the Trust Receipt as used by Finance Companies. Its use as now permitted in Illinois, Indiana and California, in my opinion, can only be to its further abuse.

Cordially yours,
G. H. DUNNINGTON,
Asst. Treasurer,
Manufacturers' Finance Company,
Baltimore, Md.

Article disapproved

Dear Mr. Layton:

I enjoyed very much your article, "Beware of Laws Called Uniform" in the June, 1938, issue of Credit and Financial Management.

However, because of my great respect for the banking fraternity, I believe that some comment is in order regarding paragraph three on page 22. But perhaps you meant to infer that A's bank would be so ill-informed as to accept a trust receipt under the conditions that you stipulated.

As a Californian I might take umbrage at your critical words and retort that even though the credit fraternity in Oregon may easily be confused, credit administrators in California are usually able to discern the character of the transactions they handle. But a protracted verbal barrage would be of small value.

Why not let us have, instead of a critical analysis, say "further comments, with precautionary remarks, on the subject of trust receipts"?

Yours very truly,
J. R. MACARTHUR,
Credit Manager,
Super Mold Corporation of California,
Lodi, California.

A. B. A. agreement

Dear Mr. MacArthur:

I have your letter of June 9th, referring to my article in the June, 1938, issue of "Credit and Financial Management."

Frankly, I don't understand your

(*Continued on page* 33)

desterilized for the purpose of making "additional bank resources available for the credit needs of the country." As a result of this action it is estimated that excess reserves would rise to around $3,800,000,000, a figure $500,000,000 in excess of the previous high of $3,300,000,000 on December 11, 1935.

This expansion of reserves, which may be likened to the action of a fire engine in pumping water into an artesian well that is already overflowing, was followed shortly by action on the part of the House of Representatives. That body promptly passed by a vote of 329 to 70 a bill appropriating $3,019,000,000 for relief as part of a $5,000,000,000 spending program.

In view of this huge appropriation, which was increased later by the Senate, it is interesting to look at the record of relief operations during other years. For this record we are indebted to a recent report by the minority members of the House Appropriations Committee whose figures were taken from official government sources. The question was whether there was any connection between the relief load and the political campaigns. "It was shown that in non-election years the relief roll normally declines between June and October, but that in the election years—1934 and 1936—this normal summer decline is reversed."

To illustrate: In 1933, a non-election year, the relief rolls declined by 3,243,000 during four summer months. In the same four months the Federal Reserve Board's index of production also declined twenty points. But in 1934, an election year, relief rolls expanded by 2,283,000 in the corresponding four months in the face of improved economic conditions as reflected by an upward movement of the Reserve Board's index during September and October. There was no election in 1935; strangely enough relief rolls decreased by 3,165,000. But in the election year of 1936, what happened? "Between July and November the combined relief rolls increased by 1,213,000 despite the fact that the Reserve Board's index moved steadily upward from 104% of normal in June to 114% in November. The following year—1937—in which there was no national election, the rolls declined 2,648,000 from June to November although there was then an exceedingly sharp decline in the production index."

"In the light of these facts," the report asserts, "it is impossible to avoid the conclusion that fluctuations in the relief rolls are determined not by actual need as reflected in general business conditions, but by political considerations related to the general elections." All this has a direct effect on banking, on price levels and on general national well-being.

Someone must provide the funds for this spenders' paradise. It is the duty of the Secretary of the Treasury. Shortly before the middle of May that official announced that the Treasury plans to sell between $500,000,000 and $1,000,000,000 obligations over the next eight months and asked that his authority to issue bonds be increased. Under the permission granted by the Second Liberty Loan Act the Treasury can sell any type of security up to $45,000,000,000. Of these but $25,000,000,000 may be in the form of bonds or long-term debt. The Treasury now has $23,301,966,056 of bonds outstanding out of a total debt of approximately $37,500,000,000 with an estimated $4,850,000,000 of guaranteed obligations. The Secretary says that the $25,000,000,000 limitation is too close and should be removed.

This is interpreted to mean in informed circles that now that the money market is in plethoric condition again as a result of the Treasury's desterilization of gold and the Federal Reserve Board's cut in reserve requirements, the Treasury intends to take advantage of it. As one writer puts it: "This boils down to just one thing—the United States Government market is still being coddled and rigged with the greatest of care . . . the Treasury has a tremendous cash balance and it would borrow now only because it wants to take the banks' money while they're anxious to give it away."

This means that money is being made over-plentiful and kept so in order that interest rates may be held at unnaturally low levels. It is not an economic process. Unavoidable results are the chloroforming of thrift everywhere and the obliteration of the normal curb on Congressional extravagance which the payment of less artificial rates of interest would provoke. And there are few informed people nowadays who do not know that the absence of natural checks and balances results in far wider fluctuations of the economic pendulum than occurs in their presence. Perhaps this behavior takes on new significance when it is recalled that the pendulum swung downward more rapidly in the fall of 1937 than during any previous depression.

All these recent actions, the desterilization of gold, the lowering of the reserve requirements, the control of the money market and so on illustrate the changing concept of banking. They point to the proposition that this government, as well as those of Europe and elsewhere, is using the banking system as an instrument of national policy. Banking is not engaged primarily in financing trade but in meeting government deficits. They also illustrate another development and that is the position of our Treasury as well as the Treasury of every other important nation. That position is one of superiority in power over central banking. Yet if there is one thoroughly established principle of sound central bank management, it is that the best interests of a nation are served through a separation of government and its central banking system. We in America have gone far in recent years in following Europe in violating that principle. We have not paid for it as yet. But who shall say that we will not?

Perhaps I can sum up the philosophy of these remarks is no better way than to quote from a recent very able statement by Dr. B. H. Beckhart of Columbia:

"The fallacy of the easy money thesis is the supposition that by some financial hocus-pocus we can attain the utopian state. It is assumed that by printing more pieces of paper money and by lowering rates of interest, we can attain a more abundant life. The cost of this policy is never counted—the cost in rising commodity prices, in industrial distortions, in the deterioration of the quality of bank portfolios, in bank failures, and in later severe readjustments. We rush along the primrose path of inflation, never dreaming of the precipice beyond. As a wise British economist has said, no tinkering with monetary counters can turn a world which is unjust and poor into a world which is just and rich. Rather in the long run, monetary tinkering will increase the injustices and the poverty of human existence."

1938: Credit Interchange Year

Concerning credit education

(Continuing the correspondence from our June issue, pp. 28-29)

ALLIED OIL COMPANY, INC.
Standard Building
CLEVELAND

June 2, 1938.

Mr. Carl H. Henrikson, Jr.,
National Association of Credit Men,
One Park Avenue,
New York, New York.

Dear Sir:

Since receiving your letter of April 20th, I have talked some with Frank Wharton, and with two or three other credit men in Cleveland, and everyone seems to be of the same opinion—but no one is doing anything about it.

I wonder who is going to give the profession of credit granting the "outstanding ear-marks." I'll bet if you contact 50 leading credit men in Cleveland, you wouldn't find two who know what the code of ethics is, and I don't think they know much about number two either. I don't!

Are the awards of Associate and Fellow, which you mention, worth striving for, and if so, why? Who knows anything about these awards and what they mean? I have often wondered what a qualified credit man is, and what kind of a yard stick you're going to use to measure him with. Is it graduated inches, or feet?

Believe me, you hit the nail on the head when you said that to achieve the objective would take a great deal of time and effort, and I wonder why the National Association does not put more stress on the fact that a certain goal is obtainable, and adorn those who obtain such a goal with appropriate buttons. Where would one go to see the studies which the National Association holds out as being a test for a qualified credit man? What do these lessons cover, and how well do they cover it?

I have asked no less than 20 credit men in the past 30 days to define a "good account," and the definitions are classics; yet a C. P. A. can tell us what a good financial statement is, a Doctor can tell us what a good case of grippe is! I am not joking either. I really believe this is something that the National Association will have to sponsor, father, nurse, and guide through to whatever level it is entitled.

Cordially yours,
ALLIED OIL COMPANY, INC.
L. R. Johnson,
Credit Manager.

June 7, 1938.

Mr. L. R. Johnson, Credit Manager,
Allied Oil Company,
Standard Building,
Cleveland, Ohio.

Dear Mr. Johnson:—

Unbeknown to me, our recent correspondence was published in the June issue of "Credit and Financial Management." Your letter certainly indicates that there is a great need for and a smoldering interest in activities which will enhance the professional status of credit managers. I am impressed, more than ever, with the necessity for publicity that will fan this spark of interest into a flame of activity that will spread throughout the membership of the Association.

You will recall that I said every profession had two outstanding earmarks, —(1) a high standard of ethics, and (2) educational requirements for its members,—and that I referred to the Canons of the National Association of Credit Men as the ethical code of credit management, and the National Institute of Credit as the implement by which educational qualification might be attained.

The Canons have been published at least twice in "Credit and Financial Management" within the last few years and are available to local Associations and members direct in pamphlet form. A pamphlet, "Forging Forward by Training in Credit," has just come off the press. This pamphlet in question and answer form explains the program of the National Institute of Credit. This pamphlet is now available to educational committees of local Associations for distribution to prospective members of the local Chapters of the Institute. They may also be obtained direct from the National office.

The April number of "Credit and Financial Management" carried an article entitled "Credit Manager: $5000" by Gordon N. Lantz of San Francisco, a member of the National Educational Committee. This article goes far in explaining the activities of the National Institute of Credit in local Chapters.

Very shortly, the Chairmen of Educational Committees and Secretary-Managers of local Associations will receive a manual as a guide for organizing and conducting the educational program. It is hoped that this will assist and stimulate them to increase local educational activities.

You ask, "Are the awards of Associate and Fellow of the National Institute of Credit worth striving for, and if so, why?" The awards, as you know, certify to the fact that the recipients have satisfactorily completed courses of study which are the minima requirements considered adequate as educational background, for junior and senior credit managers.

The fact that these awards are becoming more and more recognized as the professional hall-marks of the qualified credit manager, and that many of those who have completed courses in the National Institute of Credit and attained these awards are now outstanding credit managers with national repute, is an indication of the value of these awards.

In New York City, where the National Institute of Credit Chapter has been active for some time, senior credit executives or those responsible for employing personnel in credit departments give considerable weight to a prospective employee who has attained the Institute awards.

You may be interested in knowing that the Associates and Fellows of the Institute are entitled to wear an attractive academic key, rather than a lapel button. Those holding the awards are very proud of the distinction and honor of wearing this insignia.

You know very well that the measure of a credit manager involves so many factors that no one single standard can be used as a yardstick. The best that we can do in evaluating the qualifications of the credit manager is to judge him by the results he attains on the job in increasing the profits of his firm.

Your inquiries among the credit men as to definition of a "good account" must have brought forth a wide varia-

(*Continued on page* 35)

Latin-American credit and collection survey

by K. H. CAMPBELL, Manager, Foreign Credit Interchange Bureau

Members of the Foreign Credit Interchange Bureau who are exporting merchandise into twenty-one Latin American markets have again given their opinions and experience with credit and collection conditions in these countries in the 39th quarterly survey of credit and collection conditions covering the second quarter of 1938. These members are exporting all types of manufactured products and, therefore, their collected experiences on credit and collection conditions are of great value.

Based on the percentage of replies received, the credit condition index chart refers to the situation within the various Latin American markets from the commercial point of view only. No consideration is given to the question of governmental debts or service obligations. The collection index chart refers to current business and reflects the experiences of the members replying.

The charts which accompany this article show graphically the index of credit conditions and the index for collections for the second quarter of the year, as well as giving a comparison between the four preceding quarterly periods. These charts also show the general classification, both as to credit conditions and current collections for each respective territory.

During 1937 a favorable trend was evident in these surveys until the third quarter when a reversal of the upward trend was indicated. The first quarter of 1938 indicated an apparent stemming of this downward movement but the present survey, as of July 1st, would indicate that this downward movement has not been stopped in its entirety.

Venezuela apparently is the market which has felt this downward movement least of any in Latin America. Credit conditions, according to the survey, are reported as good, and collection conditions are prompt in this particular market. The most substantial declines in the second quarter of 1938 in regard to credit conditions have taken place in such markets as Mexico, Argentina, Bolivia, Dominican Republic, Honduras, Salvador, Ecuador, Cuba, Guatemala and Paraguay.

The situation in Mexico, of course, is well known to all exporters and the fluctuation of the peso has made conditions particularly difficult. It is hoped that Mexico will stabilize the peso at approximately five to the dollar, and if this is done some stability should enter the situation. In regard to Argentina, the poor crops combined with a decline in exports have caused Argentina to curtail drastically her imports and American manufacturers are finding it difficult to receive previous exchange permits.

Ecuador recently instituted an import control which has caused some concern to American manufacturers. The cocoa crop is expected to be one-fifth smaller than last year and this, combined with new world prices in the cocoa market, makes the situation rather difficult. Unsatisfactory conditions existing in Honduras, Salvador, Guatemala and Cuba are also reflected by the decline in the index of credit conditions in this survey.

At the middle of the year it might be well to make a comparison between the situation existing in the closing quarter of 1937 and the second quarter of 1938. While various gains and losses have taken place during the year, the net result for the six months' period indicates that the index of credit conditions has improved in seven countries, namely, Peru, Venezuela, Costa Rica, Brazil, Chile, Colombia, Haiti.

No change is indicated in Puerto Rico, and a downward trend is noted in Argentina, Panama, Cuba, Mexico, Uruguay, Guatemala, Dominican Republic, Salvador, Honduras, Paraguay, Ecuador, Bolivia and Nicaragua. As mentioned previously, an outstanding improvement has been noted in Venezuela, although this country has always rated satisfactory in previous surveys in regard to credit conditions.

It is interesting to note that the situation in Brazil has shown improvement during the past quarter. This is a very important market for American manufacturers and Brazil has been making every effort to provide exchange for the importation of American products. Apparently, members of the Foreign Credit Interchange Bureau feel that this situation is clearing in a favorable manner.

Collections are apparently satisfactory, even though internal credit conditions might not be judged to be exemplary. Seventeen of the twenty-one countries in the survey are listed as prompt or fairly prompt in collection items although some shifting of position and generally a downward trend in the collection index has been noted. Sharp declines have occurred in such countries as Ecuador, Paraguay and Bolivia. The import control in Ecuador above referred to is probably responsible for the drop in the collection index for this country and recent political disturbances in Bolivia and Paraguay probably account for the downward movement in these two countries.

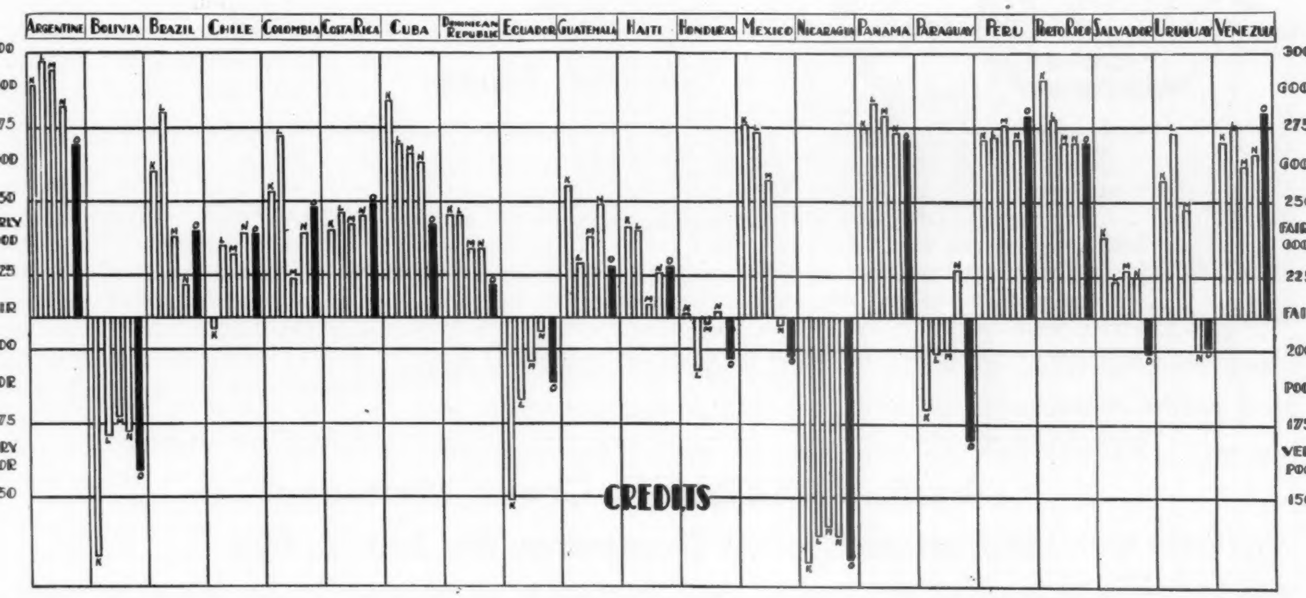
As compared to the last quarter of 1937 an upward trend is indicated in six markets, while fifteen show a decline in the collection index. It is interesting to note that even though credit conditions in some of the markets are not so satisfactory, collections have been relatively prompt. This might indicate that export customers who have been satisfactorily checked as to financial and moral responsibility are good risks and succeed somehow in taking care of their obligations to American exporters in spite of the generally unsatisfactory nature of economic conditions in their own countries.

Probably one reason for the decline

in credit and collection conditions in Latin American markets has been the drop in price of raw materials and agricultural products produced by these countries, coupled with the fact that American export business has moved forward at an accelerated pace.

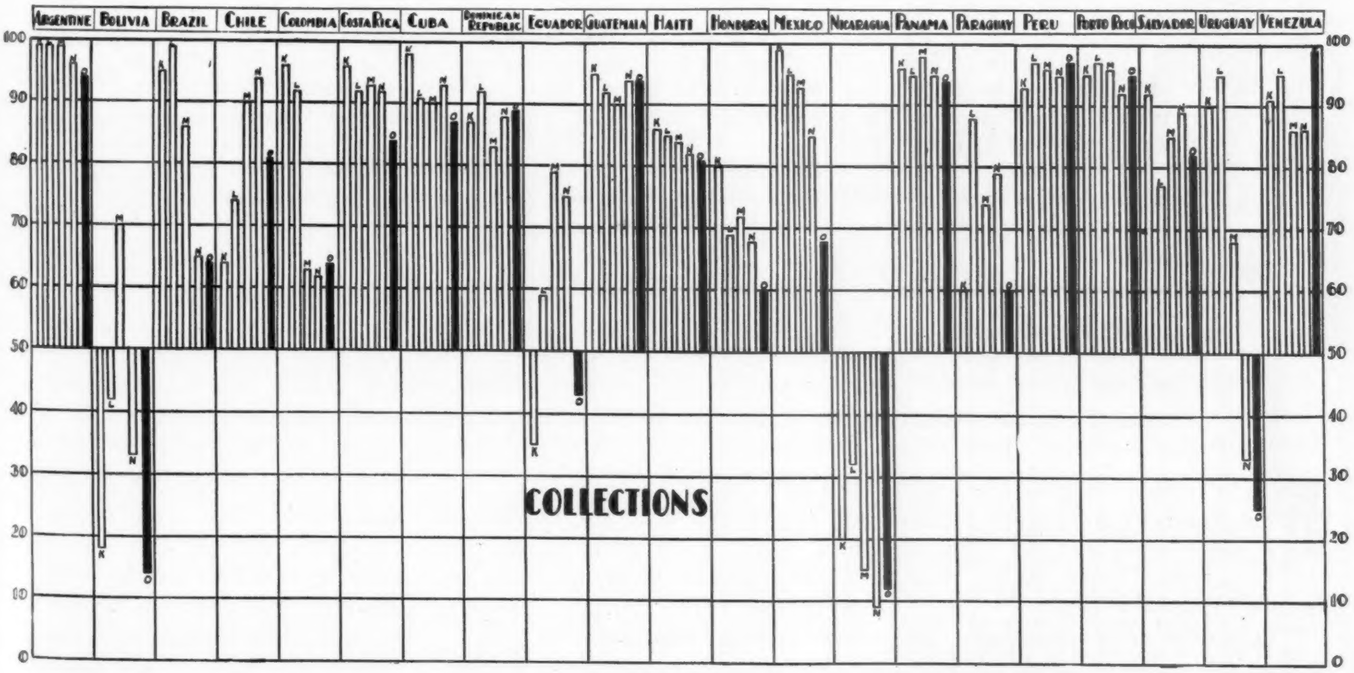
During the last part of 1937 exports averaged just above $300,000,000 a month, and during the first four months of this year have been running about $275,000,000 per month. Imports fell steadily to the end of 1937 but this decline seems to have ceased during the first four months of the previous year. During the first third of 1938, both exports and imports have remained rather steady with a large surplus of exports. This suggests that conditions in other countries are tending to sustain rather than depress business and prices here.

From the point of view of this survey it is interesting to note that credit and collection conditions were most satisfactory when imports were high and as our imports decline but our exports continue at their high level, difficulties are encountered in the field of foreign credits and collections.



Collection conditions in twenty-one Latin-American countries at five different periods. The scale numbers are based on the percentage of reports of prompt collections for each country in each survey (below).

Credit conditions in twenty-one Latin-American countries scaled on the basis of the credit condition index figures which express mathematically the combined opinions of individual reports on each country (above).



Key: K: 2nd Quarter, 1937; L: 3rd Qtr.; M: 4th Qtr.; N: 1st Quarter, 1938; O: 2nd Qtr.

This month's collectors:

Submitted for the approval of our readers

by A. W. RAYBOLD, Credit Manager
Revere Copper and Brass, Incorporated, New Bedford, Mass.

Gentlemen:

We regret that a number of miles make it impossible to call on you, as we feel sure that before we left you would hand us a check for $48.29 to clean up that old October account.

While it is true that we have written several letters endeavoring to collect this sum, we realize that you probably have some good reason for withholding payment. We should prefer your check by return mail, but if this small amount is still bothering you please write us—we will then know what the trouble is and will be better able to cooperate.

Very truly yours,

by R. C. KELLER, Credit Manager
Norwine Coffee Company, St. Louis, Mo.

Sirs:

You no doubt have customers owing you who have allowed their account to become in arrears. You dislike to ask them to pay up because you know they are absolutely good. At the same time, feel that you have given them the same good service and quality merchandise that you have your other customers who pay promptly.

You, therefore, know just how we feel about your account with us. We want to continue giving you the best possible service and high quality products as well as the benefit of our regular terms. To that end we seek your cooperation in the matter of settlements.

It occurs to us that you may be waiting to pay your account in full. Please don't do that because the older it gets the worse it looks on our books. We want to make favorable reports when called upon and hope you can place us in a position to do so by making at least a part payment by return mail.

We suggest that you send us a check for say $34.70 the amount of your May and June bills. That will put your account in much better shape and enable us to give you additional time on the remaining bills. Will you do this?

Yours very truly,

DEAR MR. KELLER:

Wish you would write letters like this to my customers. They sink in yet leave a dandy feeling. (Name omitted)

"The enclosed original letter with the recipient's reply noted thereon is one selected from my collection of souvenirs," Mr. Keller writes in submitting his letter.

"To get the desired remittance, plus a favorable comment about the letter, is just about as much joy as a collection man can get out of his job.

"If you feel that the membership may derive some benefit from this human appeal I'll be happy to have you publish this letter. After it has served your purpose please return it."

A great deal of collection letter writing, however, can be obviated if proper care is taken in analysis of credit responsibility. The most fundamental, up-to-date method ever devised for knowing just how worthy your credit applicant is as a risk has achieved foremost standing among credit executives because it is based on the current record: The Credit Interchange System.

(*Continued from page 27*)
comments, but thought, with reference to your remarks pertaining to your "respect for the banking fraternity", you might be interested in quotations from communications recently sent out by the American Bankers Association which has agreed with the text of the article you wrote about. These quotations are as follows:

"For your information, our Committee on State Legislation is making efforts to have the chattel mortgage clause repealed in the four states where it is now the law, and to prevent its enactment in states where the Uniform Act has been introduced."

And again,

"Our Committee on State Legislation is making efforts to have the so-called chattel mortgage clause repealed. This clause has been inserted in the Uniform Trust Receipts Act in four states to date, namely, California, Connecticut, Illinois and Indiana. * * * if you have any suggestions whereby our Association can be helpful in getting the amendment repealed in California, we will be glad to have them."

It would appear that the bankers and the commercial credit grantors are in accord in this matter, but, as you say, "a protracted verbal barrage would be of small value."

Very truly yours,
W. B. Layton,

Further comment

Dear Mr. Layton:

Please pardon this delayed reply to your kind letter of the 20th.

I am quoting from page 22 of the June "Credit and Financial Management," from your article:

"A is the operator of a furniture store. He has acquired on open credit an extensive stock of ranges. He goes to his bank and borrows $1,000 and issues to the bank a trust receipt covering all of the ranges that he has in stock, and at or before this time also gives to the bank a Statement of Trust Receipt financing such as is hereinabove described."

The idea I intended to convey in the earlier letter, Mr. Layton, was this: that "A" might propose that his bank accept a Trust Receipt under those conditions, but that I doubted very seriously that a bank would accept a trust receipt under those conditions.

As I understand it, the theory behind trust receipts is that title to the equipment passes from the manufacturer or distributor to the acceptor of the trust receipt, who pays the manufacturer or distributor direct; and that in this manner title is never vested in the signor of the trust receipt, who thereby becomes merely a bailee of the equipment.

In line with this interpretation, your Mr. "A" having acquired title to the ranges by virtue of his open account line of credit, the banker should reject a proposal for the handling under trust receipts, but insist on a chattel mortgage, under which Mr. "A" could transfer his title to the ranges to the bank.

I suggested that you consider issuing "further comments, with precautionary remarks, on the subject of Trust Receipts" to clarify these details for many who may not be conversant with them.

Yours very truly
J. R. MacArthur, *Credit Manager*
Super Mold Corporation of California
Lodi, Calif.

Insurance digest

Insurable interest

In order to obtain a clear understanding of the expression "Insurable Interest" it is necessary to look at the life insurance policy and the persons who are involved in the making of the contract, says George Kolodny, Postal Life Insurance Co., in a recent article in the house organ of the Hooper Holmes Bureau. In the popular sense we have on one hand the life insurance company—on the other (1) the person applying for insurance, (2) the beneficiary.

However, situations arise in practice where the circumstances are somewhat more complicated. Let us consider the case of a creditor who as partial security for his debt requires that the debtor insure his life in favor of the creditor. In that case the debtor who signs the application has merely expressed his consent that his life be insured. The creditor is really the person who procures the insurance. He is the owner of the policy and the beneficiary thereof.

With this analysis of the situation in mind we can say that insurable interest is that interest which the law requires the person procuring insurance to have in the life insured in order that a transaction may not be regarded as mere speculation or a wager. The person procuring the insurance must be so related to the life insured that he has an expectation of benefiting by the continuance of the life insured, or an expectation of suffering a loss or a detriment by its termination. The interest must be based on value and not merely on sentimental consideration. Thus a sister has no insurable interest in the life of her brother merely because of the close relationship, but if the brother supports her, then insurable interest is present. A wife has an insurable interest in the life of her husband because of his duty to support her. A husband has an insurable interest in the life of his wife because he is entitled to her services. A minor child has an insurable interest in the life of his father because he is entitled to support, but an adult child has no such insurable interest unless the father actually supports him. A father has an insurable interest in the life of a minor child because he is legally entitled to his earnings during minority, but he has no insurable interest in the life of an adult child unless he actually receives his support from the child. An employer has an insurable interest in the life of a valued employee. A creditor has an insurable interest in the life of his debtor.

Effect of machinery on farm labor

The same forces of drought, depression, and power farming which are displacing tenant farmers and laborers in the Texas "Panhandle" are operating in southwestern Oklahoma and the Mississippi delta. Wheat farming is being mechanized rapidly and cotton farming still more rapidly. Between 1929 and 1936 tractors increased from 3,170 to 4,176, or 31.7 per cent, in the five leading cotton-producing counties of Oklahoma.

Would it help you?

When you say "Not Selling," please take a minute to find if *you* closed the account—and if so, why. There is a veritable gold mine of this invaluable information in credit files. Why not put it to work through Credit Interchange Service?

(*Continued from page 29*)
tion in definitions. Again, the good account, like a good credit manager, is most difficult to define on the basis of one or two factors. There are so many elements involved that every account requires the balancing of the forces of these factors to obtain the resultant answer. Probably, it is a very good thing for the credit profession that it isn't possible to work out the answer to whether an account is good or not on the basis of a very simple formula. If that were possible, the judgment of a good credit executive would not be necessary, and many of us in the field of credit management would be out of jobs. I am convinced that the efficiency of a credit department depends largely upon the good judgment of its executive and employees, backed up, of course, by every source of credit information that can be obtained.

It is my sincere hope that your interest in the question of increasing the prestige and status of the credit profession and the part that education plays in achieving this goal will be increased to the point where you will influence others to take some action.

Yours sincerely,

CARL H. HENRIKSON, JR.

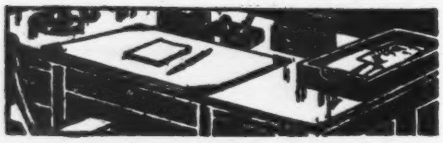
Company unions

A study by the Bureau of Labor Statistics of a representative group of 126 company unions indicates that their establishment was most frequently due to the pressure of trade-union activity, in the form either of organization drives or strikes in the trade or vicinity; few were set up in the absence of such external influences.

The company unions studied had been most successful in the field of health and safety work. About two-thirds had made some attempts in adjusting individual grievances. Company unions were less effective in handling general questions of wages and hours than in handling other matters, although a small number had engaged in a procedure approximating negotiation, which in some cases had resulted in wage increases.

A study of the internal structure and strength of these organizations, however, leads to the conclusion that their aggressiveness was due to the activity of trade-union members within the company union or to encouragement by a management favorably inclined toward the idea of a vigorous union of its own employees but independent of outside affiliation.

On offices



Mechanical accounting

The adoption of mechanical accounting has made it possible for S. Kind & Sons, Philadelphia, to effect a saving of about 40 per cent in the clerical cost of handling charge accounts, Ralph H. Butz declared recently in "The Office Economist."

In a briefed version of the article, "The Management Review" notes that the ledger sheet and statement form for each account are filed together in the ledger tray. When a charge sale is to be entered, the accounting clerk takes these two sheets, and with a carbon sheet inserted, enters them on the left side of the machine, making entries on both forms in one operation.

The machine is equipped with totalizers for each column, so that adding or subtracting amounts is a mechanical operation. While statements and ledger sheets are being written on the left side of the machine, a form known as a journal sheet is carried on the right side; and this sheet remains in the machine while posting is being done.

After the entry has been made on the ledger sheet, a duplicate entry is made on the journal sheet. The journal sheet is moved ahead one space at a time, and at the end of each day there is a complete record of every transaction that affects the charge accounts. Since totalizers are provided for each figure column, totals of the daily entries are brought forward automatically.

At the end of the month there is no necessity for overtime work to send out statements or balance books. Since statement and ledger entries are made simultaneously, every statement is complete and ready to mail at the end of the month.

An interesting feature of the system is the use of an automatic index for the ledger trays, making it possible for the accounting clerk to locate any account in a few seconds. This index has been described in detail in this article.

Electric calculator

An Electric Duplex Calculator, equipped with *direct subtraction,* has recently been developed by Burroughs to do a complete calculating job with but a single handling of the figures. Computing or checking invoices, payroll, inventories, costs, requisitions, sales analyses, statistics, prorating, bank account analyses, and general calculating can now be greatly speeded and simplified.

The machine has been designed to provide the results of individual calculations and to accumulate the grand total without the separate operation of recapping, thus avoiding the chances of errors which frequently occur when figures must be "cleared" from the machine and then relisted to obtain a grand total.

An outstanding advantage of the Calculator is that the result of a single calculation, appearing in the lower of two sets of dials, can be verified for accuracy before being transferred to the upper set of dials, which provides the grand total or net result. If the amount is incorrect, it can be cleared from the lower dials without affecting the figures already accumulated in the upper dials.

The electric duplex calculator is equipped with a subtract key by which the amount in the lower dials is quickly subtracted from an amount in the upper dials without the use of complementary figures. Thus, any amount in the lower dials can either be added to or subtracted from the amount in the upper accumulating register merely by touching the plus bar or the minus key.

Where calculations result in fractions of cents, the machine will either give or take the half-cent as desired, or accumulate the fractions in the normal way.

The Burroughs Duplex is enclosed in a neat, crystal-panel case, trimmed with black enamel. The slope of the keyboard and position of the dials reduce eyestrain and permit easier operation. Fast and uniform key-action is obtained through the quiet motor which runs only when keys are depressed, thus saving unnecessary wear and expense. Partial registration of key values and the simultaneous depression of two keys in the same column are impossible.

The electric duplex calculators with direct subtraction are available either in ten- or fourteen-column capacities, and are backed by Burroughs standard guaranty and world-wide service.

Timely article on "non-par" problem

Sirs:

As a member of the New York Credit Men's Association, I wish to commend you, even though belatedly, for publishing in the May number of CREDIT AND FINANCIAL MANAGEMENT Mr. Horace Johnston's timely article entitled "Again—the 'non-par' problem!". Credit Men particularly are opposed to any obstacle to the free flow of money, realizing as they do that such an obstruction is an impediment to commerce itself. In a sense money has come to mean bank checks in day-to-day business transactions, and the growing limitations on the use of bank checks throughout the nation are therefore a rightful concern of our group.

No doubt limitations of space prevented a full exposition of the subject by Mr. Johnston. In the belief that his article will be followed by others on the subject, it is recommended that further study be given to the possible effects of bank charges on the whole banking system, to Federal Reserve member banks' virtual nullification by indirect means of the par clearance regulation, and to the exact nature and variety of the charges in question.

There is already an indication that the geographical transfer of money will be diverted more and more from small and intermediate banks to organizations which can perform that function efficiently, less expensively and often more speedily than can assessing banks. National industrial organizations are availing themselves of the services of the Telegraph companies, the Express companies and the Post Office. Individuals are driven to patronage of parasitic and unregulated organizations or pseudo banks, whose first, and so far only, reason for being is the encashment of checks at a price. Is this diversion economically and socially desirable? Can banks afford to foster it?

That Federal Reserve member banks as a class are according par clearance is open to question. A bank that virtually reaches into the pockets of its depositors and extracts from their balances so-called "service charges" is believed by some students of the subject actually to be making indirect exchange assessments which it is prohibited by law from making directly. Charges for checks deposited, for checks drawn, for transfer of funds, for overhead, for investment costs, for compensation cost including taxes and reserves, and for expected profit, all may nullify individually the spirit if not the letter of par clearance; in combination they may be not only duplicative and, in most instances unconscionable, but also illegal in intent if not in definition.

Both Member and Non-Member banks are making charges like these which tend to diminish the use of bank checks as a circulating medium. But both classes are making charges in addition that violate the principle of an undiscountable national currency. I refer to assessments for U. S. Currency deposited and for handling currency. Even during the nation-wide banking moratorium of 1933, banks were allowed to open for the sole purpose of making change for the community at large!

Many members of the National Association of Credit Men lack information on the exact nature and extent of exchange and service charges. Your presentation in May of an introductory article was a service to the Association. I hope that you will be able to allot additional space in forthcoming issues.

Very truly yours

M. L. GOSNEY
New York, N. Y.

Collection letter strategy

Sirs:

The type of so-called collection letter by Mr. C. W. Brown, printed in your magazine for June, seems to me to be lacking in constructive elements. A credit man should not be surprised to "note" that an account is past due. He would naturally know that it was not paid at maturity by keeping in touch with the condition of his accounts receivable. When it was not paid at maturity he would know it or would have means of ascertaining that fact.

Mr. Brown's letter does not tell his customer the amount he owes, the terms on which the goods were sold, or the length of time which has elapsed since maturity. If the amount is just past maturity, such a letter is unjustified. If long past due, some reminder should have been sent to the debtor of the fact before this letter was written. He says nothing of that, and one would presume Mr. Brown only occasionally knew of the condition of his accounts receivable.

He tells his customer he granted him credit with the fullest confidence in him. His customer knows that already. On what other basis is credit granted? He tells his customer that he had the fullest confidence in his desire to maintain the account on a current basis. How did he know his customer had any such desire? He may have information that he has been in the habit of doing so from his credit investigations, but he knew nothing of his desire to do so.

Then he makes a rather lame statement that there must be some misunderstanding "in regard to" the charges. Did he stop to think that if such were the case, the customer's purchasing department or buyer would be more than likely to make that fact known? Did he ever know of a case where no payments were made or no letters written by the purchaser because of "some misunderstanding in regard to our charges"?

Is his company in the habit of rendering incorrect invoices, or of supplying wrong material, or of filling an order without a full understanding with the buyer as to the material to be supplied, the approximate shipping date, the prices, discounts, if any, and the terms of payment? Did he check the order and prices with the invoices to ascertain if any error had been made? Apparently not. Why then make such an assumption?

And then comes the worst of all: the "overlooking" statement. He tells his customer that if he has "merely overlooked sending us your check, will you please do so." Do what? Continue to "overlook"? And what "convenience" is afforded by sending the "enclosed envelope"? Was it a stamped and self-addressed envelope?

Then in closing he uses the old bromide of "continue to warrant your valued patronage." It is he who is "patronizing," it seems to me, by assuming that his customer would be influenced to remit on receipt of such a letter. I repeat that this letter seems to lack all elements of constructive force, and by its very weakness, fails of its intended purpose.

Very truly yours,

G. MCKAY ROBERTS, *Asst. Treasurer*
International General Electric Company, Inc., New York. N. Y.

NEWS ABOUT CREDIT MATTERS

A Section Devoted to Association Affairs

Forms Close on 20th of Month Before Issue

AUGUST, 1938

Save on Losses With Interchange

Legislative Activities Of Big Year

John L. Redmond, as chairman of the National legislative committee, presented a comprehensive report, covering the broad activities of that division of N. A. C. M. work during the past year, at the annual Credit Congress in San Francisco in June. While space does not permit presentation of the complete report, the following summary of the report will be of special interest to N. A. C. M. members;

"The past year has been one of the most active in the entire history of the Association's credit legislative work. Outstanding accomplishments during the year were:

(1) Increasingly active work on the Chandler Bankruptcy Modernization Bill.

(2) Continuous opposition to the Undistributed Profits Tax features of the Revenue Act of 1936 and to certain other features of the law;

(3) Inauguration of a nationwide campaign for better state laws protecting materialmen on public works projects;

(4) Inauguration of a new campaign in support of the principle of par clearance of checks resulting in improved conditions in several states;

(5) Numerous legislative achievements in various states;

"The work on the Chandler Bill during the past year unquestionably represents one of the most important legislative accomplishments in the history of the Association. As an early member of the National Bankruptcy Conference your Association has participated actively in the years of study leading up to the introduction of the first Chandler Bill more than two years ago and in all developments in connection with the introduction of subsequent bills, revision of the bills, and their progress through the House and Senate. It is strikingly appropriate that the Association, which played so important a

(*Continued on page* 42)

Program committee chairmen who are looking for special features for monthly dinner or luncheon meetings will be interested in the announcement by the Underwriters' Laboratories of Chicago that it has available a motion picture showing many interesting tests made by that organization before the label—"Approved by Underwriters' Laboratories"—is permitted. Those interested in obtaining prints of this picture for display at Association meetings should write to B. P. Caldwell, Jr., Assistant Secretary, Underwriters' Laboratories, 207 East Ohio Street, Chicago, Ill.

Hartford Has Big Program For October

Hartford. — The New England Conference of Credit Men will be held in this City in October, with the Hartford Chapter acting as host.

Committees are now at work on final arrangements for this conference with special plans for a program and for entertainment. The date for the conference session in October will be announced in the September issue of "Credit and Financial Management."

L.A.C.M.A. names Davis President

Los Angeles.—N. S. Davis, credit manager of the Bohemian Distributing Co., was elected president of the Los Angeles Credit Men's Association at its annual meeting at the Wilshire Bowl. Mr. Davis succeeds Fred Carpenter, credit manager of the National Supply Co., who, as retiring president, becomes a member of the board of directors.

President Fielden Reports Progress In 1937-38 Year

Membership Review Shows Newsy Data

In reviewing membership figures for a period of years, we run across some interesting data and also in this review find certain associations deserving of very honorable recognition. Thirteen Associations have gained each year for the past few years. They are

Atlanta	Jackson
Dallas	Kansas City
Davenport	Parkersburg
Des Moines	Shreveport
Ft. Wayne	Utica
Green Bay	Wheeling
Hartford	

Twelve Associations have gained each year for the past three years, namely, Binghamton, Bellingham, Manila, Newark, New Orleans, Oshkosh, Peoria, Phoenix, Richmond, Seattle, Youngstown.

Five Associations have gained each year for the past four years, namely, Chicago, El Paso, Louisville, Rochester, St. Louis. Louisville deserves special mention, having gained each year for fifteen years except between June, 1932, and June, 1934.

Three Associations have gained each year for the past five years. Birmingham, Indianapolis and Dayton.

Again showing progress in getting ahead, thirteen Associations are now ahead of the 1929 predepression figures. They are: Indianapolis, Green Bay, Los Angeles, Louisville, Oakland, Phoenix, Salt Lake, San Antonio, San Diego, San Francisco, Sioux City, South Bend, Tampa. Birmingham, Bridgeport, Nashville, Richmond and Seattle are very close to equalling their pre-depression membership.

Reviews Many of Important Gains of Past Year

The Association year which has just come to a close has been a most interesting period in which to be active and interested in credit work. The Development Program idea which germinated in Richmond two years ago has achieved maturity and the past year is the first full twelve-month period during which the fund has operated. Approximately $70,000 has been spent during the past fiscal year in strengthening and broadening our Association's work throughout the country.

Without the resources made available through this fund, it is doubtful if a membership gain during the year could have been possible. As a result of increased sales personnel available for local use together with loyal member and staff support, your Association is happy to report a net increase in members for the fiscal year of over 500. This represents the largest annual increase during the last ten years. Our sales organization is functioning smoothly and given proper cooperation it should be possible to improve this record in 1938-39.

Your Association has been unusually active during the past twelve months in the Legislative field. You have been kept familiar with legislative developments through your reading of the new Members Bulletin. Through the reading of this publication you will appreciate the gratitude which your Association owes to the Chairman and members of the National Legislative Committee, who have performed so efficiently. The work of this Committee is of a continuing nature. Excellent results have been obtained and prospects for the future of

(*Continued on page* 42)

Credit Congress scenes: 1—Arrival of Chicago and mid-West delegations at Oakland just before crossing the bay. 2—The Northwestern delegates smile for welcoming Zebras in true Western fashion. 3—A collection of beaming faces from the South arrive for the Credit Congress and meet the official Moulin cameraman.

Credit Congress scenes: 1—Heading for the Golden Gate aboard the "Yerba Buena" on the San Francisco Bay cruise. 2—More Zebras than in a zoo at the fourth annual R. O. Z. Round-Up. 3—Past President Pilsbury presents membership trophies to local Associations. 4—Zebras give Moulin cameraman a royal "hee-haw."

(*Continued from page* 39)
this work are excellent. Here again funds available through the Development Program campaign have permitted activities which would otherwise have been impossible.

In the educational field a broad foundation has been laid for a more effective credit institute program in the near future. New chapters of the institute have already been organized in several important centers and it is expected that the summer and fall will show a marked increase in activities along educational lines.

It has been interesting to note an increased interest in credit interchange. The number of member-users of this service generally has increased. The Central Interchange Bureau and the local bureaus last year handled a larger volume of clearances than in any previous year, and the reports indicate that central bureau and the local bureaus have absorbed the increased demands for service in a most gratifying and efficient manner. One important factor in the enlargement and improvement of Interchange service, possibly, as a result of educational work in this direction, is the fact that members are cooperating more promptly and accurately than ever before. There is still room for improvement in this direction

Throughout the year we have been careful in our approval of new adjustment bureaus. The supervision of adjustment bureaus has been continued and increased.

Agitation against lay collection agencies in certain sections of the country has continued but we are still hopeful that an amicable understanding may be reached in connection with this department of our work.

There have been definite indications throughout the year that the prestige of our Association has been advanced. With various trade organizations and governmental departments the National Association of Credit Men has a rather intimate and cordial relationship. Through the activities of our National and local staffs and our public relations department our prestige has grown with the general public. We have been more in the daily press during the past year than during previous years and both nationally and locally are being recognized to a greater extent than ever before as an authority on matters pertaining to credit procedure and practice.

Our Foreign Department continues outstanding in its field and the leader in this country and in the world as a source of foreign credit information.

It has been my good fortune during the year just past to have had the opportunity of contacting with at least 30 local Associations. I am glad to be able to report to you that general membership interest continues high. The new Members Bulletin has, I think, done much to stimulate and encourage this interest on the part of individual members in the Association work. It is, I think, a fundamental need of our organization that we continually strive to keep our general membership more conscious of the activities and work of our National and local organizations. If this be done, member cooperation is assured.

It has been of particular interest to me to know that in the Associations that I have had the opportunity of visiting that an interested and active membership and efficient local Association management seem to go hand in hand. Good management will recognize the need of an interested membership and on the other hand, active and loyal members will see to it that local and national managements are continued on an efficient basis.

This Association, yours and mine, has before it a wonderful opportunity. As a country we are going through a period of fundamental economic, social and political change. In a time like this if we are to succeed as an Association or as individuals, we must recognize that some change in our business thinking is necessary. We must adjust our thinking to the speed of the change. There is, I believe, a place in our commercial life for an organization such as ours. Without being old-fashioned we must be conservative—while being liberal, we must not be radical. Someone is needed to preserve a degree of balance in today's business organizations. Under the leadership which your Association has, the prestige which it has maintained throughout the year, the splendid record of service which it has rendered to American business, I believe that your Association is in a position to act as a governor or balance wheel of business in even a greater degree than ever before. As Credit conscious individuals you should plan to exert the same influence in your individual businesses.

Legislative Activities Scored Big Gains During Past Season

(*Continued from page* 39)
part in the enactment of the Bankruptcy Law of 1898, should be equally active in a complete modernization of that law about forty years later.

"In its work in connection with the Revenue Act of 1936, the Association followed its traditional policy of taking an active interest in tax legislation which has so important a bearing on credit conditions. During the past year the Association followed up the protest which it filed against certain features of the Revenue Act of 1936—notably the undistributed profits tax provisions—which it made almost immediately after the enactment of that legislation.

"The nationwide campaign for better state laws protecting materialmen on state public works projects represents a definite need on the part of thousands of Association members in the building supply trades and a desire to duplicate in the states the favorable conditions which have followed enactment of the Miller Act by Congress to protect materialmen on Federal public works projects. This work is under the supervision of a special subcommittee of the National legislative Committee and is receiving the concentrated attention of members of the Legislative department's staff.

"The National Legislative Committee's Subcommittee on Par Payment of Checks, submitted a report to the National Board of Directors at its January meeting. That report urged action by the Association to check the growing practice of making exchange charges by small banks in the Northwest, Central and Southeastern parts of the country. It recommended that the first approach to this matter be through conferences with state bankers' associations in the affected areas."

Waterloo.—Credit men in the central Iowa area were shocked to learn of the death on July 15th of J. E. Jordan. Because of ill health Mr. Jordan had relinquished his duties as Secretary of the Waterloo Association several weeks ago, but no one realized that his illness was of such a critical nature.

James C. Graham has succeeded Mr. Jordan as Secretary of the Waterloo Association.

Texas Oil Men Talk Over Plans at Dallas Meet

Dallas.—Last month fifty-two Petroleum Oil Creditmen from major, jobber and independent oil companies, marketing in the five Southwestern States, met at the Adolphus Hotel at Dallas for one day session to renew acquaintance, foster fellowship and discuss the myriad problems confronting the oil creditmen of today.

In this group of fifty-two creditmen who had served their companies an average of 15.2 years each, the total years and experience in credit granting and collecting accounts of this group accumulated was 790.4 years—that's a whale of a lot of credit granting years. Accumulating a very conservative figure of $260,000,000 per year, they have over the fifteen year average, granted four billions of dollars credit. In this day nd age this figure doesn't sound as fantastic as it would have fifteen year ago, *BUT* when you consider that nearly ten million separate credit applications, covering consumer, jobber, dealer, farmer, commercial consumer, and industrial accounts have been handled, you will have to take your hat off to these boys as they certainly have checked up the record of a lot of people and firms.

Syracuse Fetes Clifford Cramp

Syracuse. — Clifford W. Cramp, formerly with the First Trust and Deposit Company of this city, has been named vice-president of the First National Bank of Canastota, New York. Mr. Cramp has been an active member of the Board of Directors of the Syracuse Association for some time.

He started his banking career in 1919 when he was engaged as a messenger by the First Trust and Deposit Company advancing through various departments until he became manager of one of the branches for that bank.

Mr. Cramp was a former past-president of the Syracuse Chapter, National Institute of Credit.

A testimonial dinner in his honor was attended by a large number of the members of the Syracuse Association on July 26th.

Credit Congress scenes: 1—Some of the crowd that inspected the Treasure Island location of the 1939 Golden Gate Exposition on "the day off." Luncheon was served here to the delegates. 2—Ladies tour Greek Theatre at University of California and the Moulin camerman has them "watch the birdie."

Credit Congress scenes: 1—Annual Credit Women's breakfast on Tuesday morning. 2—A group from New York and the East say "Hello" on arrival. 3—Look at those hats on those Zebras at their annual Round-Up. 4—Oakland and Salt Lake Secretaries, Ken Thompson and Bob Peel, and Zebras show the Western spirit. 5—Look who are in "the line-up" aboard the Yerba Buena on the cruise around San Francisco Bay!

The business thermometer:

Manufacturers:

Manufacturers' sales during the first half of 1938 were 24½ per cent below the first six months of 1937 according to a special analysis of reports from 800 firms reporting sales data for both years to the Marketing Research Division of the Bureau of Foreign and Domestic Commerce.

This group of firms reported sales of 985 million dollars for the first six months of 1938 as compared with 1,305 million dollars for the same period last year.

The heaviest monthly declines occurred during January and April, sales decreasing 29 per cent in each of these months. February sales were down least, being 22 per cent under February 1937.

Every industrial group for which data are separately shown recorded a sales decrease for the first half of 1938 from the first half of 1937. The most favorable comparisons were a decrease of 6 per cent for the Petroleum Products Group, a 6½ per cent decline for the Printing, Publishing, and Allied Products Group, and a 10 per cent decrease for Food and Kindred Products Manufacturers.

Other declines ranged down to decreases of 56 per cent for the Motor-Vehicle Parts Group, 52 per cent for Iron and Steel and Their Products, and 48 per cent for Non-Ferrous Metals and Their Products.

Reports from more than 1100 firms indicate that manufacturers' sales during June 1938 declined 23 per cent from June 1937. This was a more favorable comparison than was recorded during May when sales declined 28 per cent from the previous May.

June sales increased 2½ per cent over May 1938. This compares with a decline of 7½ per cent between these months last year.

Wholesalers:

Total wholesale trade during the first six months of 1938 declined 15 per cent from the first half of 1937, according to a special analysis made of 1700 wholesalers submitting reports for both periods to the Marketing Research Division of the Bureau of Foreign and Domestic Commerce.

This group of firms reported total sales of 846 million dollars for the first half of 1938 as compared with a dollar volume of 993 million dollars during the corresponding period of last year.

The largest monthly decrease from 1937 occurred in April, when sales were down 18½ per cent from the previous April. The best relative showing of the half year took place during January, when sales were down 12 per cent.

In interpreting these percentage changes from the first six months of 1937, it must be borne in mind that it was during this period that wholesale trade attained its highest levels in the last eight years. On the basis of the monthly reports submitted to the Bureau of Foreign and Domestic Commerce since the beginning of 1936, it is estimated that total wholesale trade

MANUFACTURERS' sales and collections on accounts receivable, June 1938

Industry	June Dollar Sales				Sales for Six Mos. 1938			Collection Percentages*				Total Accounts Rec.		
	Number of firms	Percent change June 1938 from June 1937	Percent change June 1938 from May 1938	June 1938 (000's)	Number of firms	Percent change from 6 Mos. '37	First Six Mos. 1938 (000's)	Number of firms	June 1938	June 1937	May 1938	Percent change June 1 '38 from June 1 1937	Percent change June 1 '38 from May 1 1938	As of June 1 1938 (000's)
Food and kindred products, total	391	—10.9	+ 5.3	$37,789	346	—10.2	$215,862	114	121	123	118	—15.2	— 4.9	$17,855
Confectionery	276	— 2.8	— 1.9	13,874	275	— 7.2	101,176	9	122	121	115	+ 1.4	—13.1	1,059
Flour, cereals and other grain mill prod.	12	— 2.3	+ 3.6	4,412	11	—16.4	27,916	11	150	140	130	—18.2	— 8.8	820
Meat packing	12	—15.2	— 3.2	3,613	12	—13.8	20,992	11	216	216	241	—15.0	+ 9.6	1,578
Wine	30	—28.2	— 9.0	608	**	**	**	26	53	53	52	— 8.7	— 2.1	1,327
Other food products	61	—17.5	+16.7	15,282	48	—10.7	65,778	57	114	118	111	—16.8	— 5.7	13,071
Textiles and their products, total	71	—21.9	+ 3.3	9,640	65	—24.2	50,893	68	65	61	59	—29.6	—12.3	16,802
Clothing, men's, except hats	17	—29.2	—10.1	1,401	17	—28.8	12,504	16	48	53	41	—28.2	—18.4	4,254
Clothing, women's, except millinery	14	— 0.5	— 1.2	796	14	—15.7	6,045	14	69	69	68	—13.2	—20.4	1,326
Knit goods	12	—22.8	— 9.1	1,841	9	—12.2	10,360	12	66	66	64	—20.7	— 8.5	3,300
Other textile products	28	—21.9	+13.4	5,602	25	—28.2	21,984	26	74	63	65	—35.4	— 8.6	7 922
Forest products, total	37	—40.5	— 2.6	1,844	29	—32.1	9,534	35	65	70	66	—32.2	— 1.3	2,854
Furniture	21	—42.8	— 6.2	1,102	18	—34.0	6,434	21	62	64	64	—35.7	— 4.3	2,007
Lumber, timber, and other miscellaneous forest products	16	—36.9	+ 3.3	742	11	—27.7	3,100	14	74	86	72	—22.1	+ 6.5	847
Paper and allied products total	70	—26.8	— 3.9	9,028	63	—17.4	57,963	59	71	78	73	—20.0	— 7.6	12,170
Paper, writing, book etc.	12	—13.1	+ 2.9	3,009	12	—10.0	18,294	9	98	100	98	—13.7	— 1.2	2,641
Paper, boxes and other paper products	37	—30.1	— 3.5	5,405	30	—20.6	31,152	33	95	96	103	—30.8	— 2.8	4,949
Wall paper	21	—45.7	—29.5	614	21	—19.5	8,517	17	30	38	31	— 8.5	—15.2	4,580
Printing, publishing and allied industries	7	— 6.9	+18.8	404	6	— 6.5	2,050	7	51	52	52	—11.8	— 2.1	640
Chemicals and allied products, total	53	—25.9	— 9.9	13,188	37	—19.5	55,966	49	77	86	80	—15.3	+ 3.2	17,474
Paints and varnishes	21	—25.3	—14.7	2,568	17	—18.7	8,842	21	54	59	55	—16.3	+ 2.4	5,082
Pharmaceuticals and proprietary medicines	14	— 9.4	+ 6.9	1,391	8	— 8.0	6,032	13	61	67	60	— 2.5	— 6.1	2,048
Other chemical products	18	—28.0	—10.7	9,229	12	—21.1	41,092	15	91	102	97	—16.9	+ 5.7	10,344
Petroleum products	16	— 6.3	+ 3.3	41,305	10	— 5.6	202,249	13	112	118	110	— 6.3	+ 1.4	21,215
Rubber products	9	— 7.1	+19.1	2,552	6	—19.6	10,892	8	65	83	53	+ 3.5	— 8.6	3,838
Leather and its products, total	95	—28.0	— 5.3	17,264	42	—24.6	83,188	81	58	65	55	—17.7	—13.0	34,515
Boots and shoes	32	—26.0	—16.0	10,787	19	—20.5	71 965	30	52	58	50	—13.7	—15.1	28,410
Hides, processed and finished	35	—28.0	+21.1	5,018	**	**	**	29	86	94	82	—28.9	+ 1.2	4,666
Other leather products	28	—39.8	+16.9	1,459	23	—43.3	11,223	22	86	92	79	—41.3	—10.7	1,439
Stone, clay and glass products	34	—27.3	+ 3.2	7,350	21	—27.0	35,398	29	81	80	81	—27.1	+ 0.3	8,236
Iron and steel and their products, total	75	—32.0	+10.6	22,048	50	—52.3	107,370	70	88	82	86	—51.1	— 7.9	22,389
Hardware	18	—35.1	+ 8.4	2,607	9	—43.3	9,316	17	79	82	76	—37.9	— 0.4	2,924
Stoves, ranges, steam heating apparatus	12	—34.7	+ 3.8	1,548	10	—16.9	9,471	12	72	68	66	—40.3	— 6.6	2,052
Other iron and steel products	45	—31.2	+11.6	17,893	31	—55.1	88,583	41	91	83	90	—53.8	— 9.2	17,413
Non-ferrous metals and their products, total	34	—39.8	+ 0.3	5,380	15	—47.6	21,969	32	56	73	54	—21.6	+ 0.9	9,648
Jewelry and jewelers' supplies	23	—23.7	— 1.2	1,659	5	—13.0	1,209	22	41	46	40	— 8.1	+ 0.9	3,968
Machinery, not including transportation equipment, total	153	—33.3	+ 6.5	26,826	74	—25.7	99,430	133	53	66	59	—23.0	— 0.1	32,988
Electrical machinery, apparatus and sup.	87	—33.2	+ 4.0	16,999	41	—22.8	53,849	75	52	65	59	—20.2	+ 0.9	24,038
Other machinery apparatus and supplies	66	—33.5	+11.2	9,827	33	—28.9	45,581	58	57	68	59	—29.7	— 2.7	8,950
Motor-vehicle parts	37	—50.5	+ 1.5	3,255	8	—56.2	10,565	33	80	87	82	—48.1	— 4.0	3,840
Miscellaneous industries	36	—29.2	— 3.8	4,969	29	—27.4	21,951	32	61	65	59	—17.6	— 1.9	8,319
Total	1,118	—23.3	+ 2.5	202,842	801	—24.5	985,280	763	75	80	74	—25.0	— 5.0	212,783

*Collection percentages represent the percent of total dollar collections reported to the total of accounts receivable reported by the same firms.

during the first half of 1938 was at about the same level as during the corresponding period of 1936. (Sales during the first half of 1937 rose approximately 18½ per cent over the first half of the previous year.)

Only two lines of wholesale trade attained the sales volume of the first half of 1937 during the first six months of 1938. Sales of Petroleum wholesalers increased one per cent and Tobacco Distributors' sales showed no change.

Several groups registered sharp decreases, including wholesalers of Jewelry and Optical Goods, down 38 per cent, Heavy Hardware and Industrial Supplies, each down 33 per cent, and, Electrical Goods, down 28½ per cent.

Wholesale sales during June 1938 were 16 per cent below the level of last June, according to reports from approximately 2200 wholesalers cooperating in the monthly joint study of the National Association of Credit Men and the Bureau of Foreign and Domestic Commerce. This was the same decrease as was recorded in May from May of last year.

June sales were 2 per cent higher than May. This compared with an increase of 3 per cent between these months last year.

WHOLESALERS' sales and inventories, June 1938

Kind of Business	June Dollar Sales				Sales For Six Mos. 1938			End of Month Inventories (Cost)				Stock-Sales Ratios#		
	Number of Firms	Percent change June 1938 from June 1937	Percent change June 1938 from May 1938	June 1938 (000's)	Number of Firms	Percent change from 6 Mos. 1937	First Six Mos. 1938 (000's)	Number of Firms	Percent change June 1938 from June 1937	Percent change June 1938 from May 1938	June 30, 1938 (000's)	June 1938	June 1937	May 1938
Automotive supplies	140	− 8.8	+ 9.7	$2,507	100	− 5.7	$9,050	56	− 5.4	+ 0.2	$3,060	305	274	316
Clothing and furnishings, except shoes	15	−29.1	−28.7	480	12	−16.7	5,337	—	—	—	—	—	—	—
Shoes and other footwear	30	−26.1	− 7.3	8,564	29	−22.9	57,345	19	−27.0	+10.0	6,190	165	162	129
Drugs and drug sundries##	145	− 2.9	+ 7.7	20,920	125	− 6.6	113,731	104	−10.7	− 4.9	31,349	195	212	224
Dry goods	88	−25.6	− 8.3	8,858	85	−16.6	43,027	58	−34.0	− 2.7	27,186	375	427	351
Electrical goods	302	−37.5	− 9.4	15,323	274	−28.5	80,284	260	−21.0	− 4.9	18,542	140	109	129
Farm products (consumer goods)	20	+ 0.8	+13.0	2,090	19	− 5.9	12,261	10	− 1.8	− 3.1	534	63	68	72
Furniture and house furnishings	34	−27.5	− 6.1	2,431	32	−23.9	13,345	12	−31.9	−11.7	2,817	230	254	238
Groceries and foods, except farm products	562	− 7.7	+ 8.2	52,582	353	− 9.1	196,233	284	− 9.6	− 5.0	48,550	148	153	168
Meats and meat products	15	− 2.6	− 2.1	8,311	15	− 3.9	48,635	10	−11.9	− 1.3	737	67	68	81
Total hardware group	427	−24.4	+ 1.2	27,359	381	−23.7	134,513	279	−15.5	− 3.4	56,049	286	254	301
General hardware	162	−20.2	+ 0.6	18,038	142	−18.9	88,130	104	−17.9	− 3.9	39,594	295	287	314
Heavy hardware	23	−31.5	+ 2.2	1,113	21	−33.2	6,329	15	+ 2.0	− 1.6	2,826	300	195	308
Industrial supplies*	136	−35.4	− 0.7	4,544	120	−33.1	23,134	89	− 9.6	− 3.1	9,481	294	197	294
Plumbing and heating supplies	106	−25.7	+ 6.4	3,664	98	−28.4	16,920	71	−14.1	− 0.3	4,148	209	187	218
Jewelry and optical goods	49	−32.4	−10.8	1,178	27	−38.0	3,668	28	− 7.3	− 2.8	3,316	536	361	472
Leather and shoe findings	11	− 7.2	+16.2	308	9	−15.0	1,129	—	—	—	—	—	—	—
Lumber and building materials	17	−27.0	+ 5.9	1,102	17	−24.2	5,693	12	−14.3	− 1.6	1,327	183	155	199
Machinery, equipment and supplies, except electrical	21	−28.4	+ 5.0	1,900	18	−25.5	9,474	11	+ 2.9	− 7.1	3,352	275	171	318
Metals	7	−18.2	+ 6.0	283	6	− 9.7	1,558	—	—	—	—	—	—	—
Paints and varnishes	8	−25.1	− 5.7	362	7	−20.0	1,600	—	—	—	—	—	—	—
Paper and its products	50	−23.9	− 2.3	2,628	46	−18.3	15,376	23	−15.0	− 1.7	2,866	203	170	205
Petroleum	6	− 3.0	+ 4.5	4,849	6	+ 0.8	26,751	—	—	—	—	—	—	—
Surgical equipment and supplies	46	−10.5	+ 3.1	793	19	− 1.6	2,039	30	− 5.9	− 0.8	1,423	220	213	229
Tobacco and its products	172	− 0.8	+ 7.2	14,126	95	+ 0.1	49,460	63	− 4.1	+ 1.9	3,837	51	53	54
Miscellaneous	25	−16.7	+ 1.8	2,228	23	− 0.9	15,649	27	− 8.5	+ 0.4	8,010	214	209	215
Total	2190	−16.0	+ 2.2	$179,282	1698	−14.8	$846,158	1286	−16.7	− 3.5	$219,145	194	191	204

*This heading also includes distributors of mill, mine and steam supplies.
—Insufficient data to show separately.
#These Stock-Sales Ratios are percentages obtained by dividing Stocks by Sales for an identical group of firms.
##Total Sales, including liquors, wines, etc.

WHOLESALERS' accounts receivable and collections, June 1938

Kind of Business	Number of firms reporting	Collection Percentages*			Total Accounts Receivable		
		June 1938	June 1937	May 1938	Percent change June 1, 1938 from June 1, 1937	Percent change June 1, 1938 from May 1, 1938	As of June 1, 1938
Automotive supplies	106	57	64	55	− 1.6	− 0.7	$2,549
Clothing and furnishings, except shoes	15	47	56	45	− 7.9	−14.6	2,103
Shoes and other footwear	25	48	49	45	− 9.4	−11.8	9,934
Drugs and drug sundries	126	73	77	72	− 0.7	− 0.3	23,432
Dry goods	81	45	45	45	−18.9	− 3.2	21,253
Electrical goods	279	70	84	72	−19.0	+ 2.3	21,327
Farm products (consumer goods)	16	130	125	127	− 7.0	+ 1.6	991
Furniture and house furnishings	31	55	56	55	−22.4	+ 1.1	4,454
Groceries and foods, except farm products	441	102	105	98	− 4.3	+ 1.9	39,331
Meats and meat products	13	169	166	176	0.0	+ 7.4	4,947
Total hardware group	395	54	59	53	−16.5	− 0.6	45,914
General hardware	149	52	56	51	−11.3	− 1.1	32,091
Heavy hardware	23	67	68	65	−24.9	− 0.4	1,783
Industrial supplies**	122	55	64	57	−32.4	− 1.2	6,450
Plumbing and heating supplies	101	58	64	55	−19.2	+ 3.0	5,590
Jewelry and optical goods	40	24	29	21	−10.7	+ 1.5	3,795
Leather and shoe findings	10	48	49	46	−10.2	+ 1.8	556
Lumber and building materials	17	67	69	69	−26.0	+ 4.6	1,444
Machinery, equipment and supplies, except electrical	19	50	62	47	− 4.8	+ 4.9	3,088
Metals	6	62	69	66	−15.3	+ 2.4	383
Paints and varnishes	7	67	70	67	−18.8	− 0.8	393
Paper and its products	42	68	68	67	−19.5	− 2.9	3,462
Petroleum	4	91	93	89	− 6.5	+ 1.1	3,241
Surgical equipment and supplies	45	43	44	45	− 3.2	− 0.6	1,687
Tobacco and its products	109	129	138	125	+ 5.5	+ 4.1	7,020
Miscellaneous	23	60	67	58	− 7.5	− 8.8	3,676
Total	1850	72	75	70	−11.2	− 0.5	204,980

*Collection percentages represent the percent of total dollar collections reported to the total of accounts receivable reported by the same firms.
**This heading also includes distributors of mill, mine and steam supplies.

WHOLESALERS' sales and inventories, by geographic regions, June 1938

Kind of Business and Region	June Dollar Sales: Number of firms reporting sales	June Dollar Sales: Percent change June 1938 from June 1937	June Dollar Sales: Percent change June 1938 from May 1938	June Dollar Sales: June 1938 (000's)	Sales for Six Mos. 1938: Number of firms	Sales for Six Mos. 1938: Percent change from Six Mos. '37	Sales for Six Mos. 1938: First Six Mos. 1938 (000's)	End of Month Inventories (Cost): Number of firms reporting stocks	End of Month Inventories (Cost): Percent change June 1938 from June 1937	End of Month Inventories (Cost): Percent change June 1938 from May 1938	End of Month Inventories (Cost): June 1938 (000's)	Stock-Sales Ratios♯: June 1938	Stock-Sales Ratios♯: June 1937	Stock-Sales Ratios♯: May 1938
New England	124	−16.5	+ 0.4	$7,343	91	−22.7	$23,050	67	−13.2	− 3.2	$6,032	157	145	159
Electrical goods	31	−31.9	−11.7	1,167	30	−31.8	6,225	24	−26.9	− 6.2	1,328	119	111	111
Groceries and foods, except farm products	18	− 4.4	+16.9	1,997	5	− 4 3	1,644	4	− 6.9	− 6.2	435	174	200	234
General hardware	7	−20.5	−10.3	383	6	−18.1	1,412	4	−11.8	− 2.1	1,027	355	293	316
Heavy hardware	4	−36.5	− 7.8	47	4	−36.1	289	4	− 9.9	− 2.2	218	464	327	437
Industrial supplies*	15	−32.5	− 1.7	287	14	−33.4	1,523	10	+15.7	− 1.0	699	355	226	350
Plumbing and heating supplies	10	−24.5	−12.1	253	7	−17.9	544	5	−15.6	+ 0.2	476	275	233	221
Surgical equipment and supplies	4	−13.0	−12.1	87	—	—	—	—	—	—	—	—	—	—
Tobacco and its products	13	− 8.3	+ 1.4	1,388	7	− 2.5	2,185	6	− 4.0	− 0.5	363	43	40	43
Middle Atlantic	470	−16.1	+ 1.8	41,542	371	−14.9	197,695	264	−13.7	− 4.0	35,191	147	140	157
Automotive supplies	15	−20.5	+ 0.7	295	9	− 9.1	788	5	− 3.1	− 2.3	126	323	271	339
Clothing and furnishings, except shoes	6	−27.2	−32.6	397	4	−17.7	4,485	—	—	—	—	—	—	—
Shoes and other footwear	7	−10.8	− 8.3	530	7	−16.2	3,756	4	−26.4	+ 7.8	1,083	297	346	213
Drugs and drug sundries	25	− 4.8	+ 4.8	4,648	21	− 7.6	25,970	20	− 9.2	− 2.8	5,302	154	161	170
Dry goods	18	−37.1	− 3.0	1,024	18	−23.1	7,276	12	−16.2	− 6.9	1,904	296	253	309
Electrical goods	59	−44.4	−13.2	2,423	55	−32.4	15,107	51	−33.5	− 6.9	2,927	130	107	119
Farm products (consumer goods)	6	+ 2.3	+14.6	983	6	− 5.5	6,010	—	—	—	—	—	—	—
Groceries and foods, except farm products	97	−12.2	+ 5.3	13,769	54	−10.0	47,089	37	− 7.9	− 6.7	11,164	131	127	150
Meats and meat products	4	− 8.3	− 4.8	3,465	4	−13.3	18,814	—	—	—	—	—	—	—
General hardware	28	−17.1	− 6.9	1,682	26	−11.5	8,674	13	−11.2	− 6.2	2,278	312	289	320
Heavy hardware	9	−23.5	− 2.2	355	8	−22.4	1,935	5	+ 0.4	+ 3.3	761	261	201	242
Industrial supplies*	40	−40.3	− 5.2	1,059	35	−32.5	5,593	28	−19.6	− 2.1	2,230	278	194	260
Plumbing and heating supplies	41	−25.6	+ 7.7	1,082	39	−29.8	5,424	31	−16.8	+ 0.1	1,404	190	173	205
Jewelry and optical goods	19	−42.1	+ 0.7	418	14	−48.9	1,910	11	−12.9	− 3.8	1,778	570	372	576
Lumber and building materials	7	−26.2	+ 3.8	248	7	−29.5	1,334	—	—	—	—	—	—	—
Surgical equipment and supplies	8	− 8.9	+ 8.2	92	5	−14.1	371	6	− 7.4	− 1.0	189	233	234	258
Paper and its products	17	−27.3	− 2.1	1,055	15	−21.2	5,739	6	−16.8	− 1.3	974	155	125	152
Tobacco and its products	49	+ 1.1	+ 8.3	5,703	31	− 0.6	24,921	24	− 5.9	+ 1.4	2,392	54	57	58
East North Central	413	−20.6	+ 2.3	31,021	308	−17.2	141,671	250	−16.7	− 3.0	38,108	194	177	201
Automotive supplies	38	−18.8	+ 3.1	535	29	+20.6	2,483	21	− 5.0	− 1.3	1,100	340	282	359
Drugs and drug sundries	24	−11.5	+ 6.3	3,077	22	−11.4	17,049	15	−12.3	− 2.3	3,785	172	172	189
Dry goods	9	−19.5	+ 1.6	775	9	−13.4	4,466	7	−23.8	− 5.1	1,622	226	240	241
Electrical goods	62	−43.0	− 9.3	4,105	49	−28.9	20,813	53	−20.0	− 4.0	4,747	159	108	138
Groceries and foods, except farm products	99	− 9.1	+11.6	9,572	60	−10.1	37,193	52	− 7.7	− 1.8	8,075	147	147	166
General hardware	25	−22.8	− 1.0	4,336	20	−21.6	19,792	21	−26.8	− 5.7	10,879	265	280	279
Industrial supplies*	27	−46.9	−10.4	916	25	−40.2	5,514	18	−13.6	− 3.2	2,382	339	205	307
Plumbing and heating supplies	12	−28.8	+ 5.8	514	12	−30.4	2,596	6	+ 3.2	− 2.3	520	281	207	326
Jewelry and optical goods	10	−29.3	−18.8	478	7	−36.8	579	11	− 1.5	− 1.9	1,107	481	343	391
Surgical equipment and supplies	7	− 1.4	+ 5.8	272	5	+ 1.2	1,094	5	−18.6	− 1.5	406	161	198	172
Metals	4	−16.7	+ 7.7	195	—	—	—	—	—	—	—	—	—	—
Paper and its products	12	−30.2	− 4.6	734	12	−21.0	4,911	8	−28.1	− 5.1	537	162	153	174
Tobacco and its products	50	− 0.3	+ 6.9	3,499	30	+ 3.6	12,433	16	+ 0.7	+ 5.5	724	51	49	51
West North Central	256	−13.4	+ 2.0	30,558	207	− 7.9	150,098	165	−25.7	− 2.6	50,539	228	256	239
Automotive supplies	16	+ 6.3	+34.5	487	13	−21.7	1,812	4	−13.8	+ 0.3	367	303	255	318
Clothing and furnishings, except shoes	5	−46.8	−13.7	44	4	−10.7	393	—	—	—	—	—	—	—
Shoes and other footwear	5	−30.3	− 6.6	2,767	5	− 7.1	20,313	—	—	—	—	—	—	—
Drugs and drug sundries	16	+ 1.7	+13.2	2,640	14	− 5.3	12,211	15	−10.2	− 5.0	4,199	181	206	217
Dry goods	8	−29.2	−10.5	3,754	6	−17.5	7,781	7	−36.8	− 1.8	15,999	433	484	394
Electrical goods	30	−19.3	− 8.1	1,409	27	−14.9	7,489	26	−22.7	− 9.7	1,459	116	117	116
Furniture and house furnishings	9	−25.2	−12.8	1,244	9	−20.8	7,154	5	−39.7	−15.4	1,836	222	274	223
Groceries and foods, except farm products	73	− 0.1	+17.6	7,110	53	− 8.4	30,701	52	−14.8	− 3.6	8,793	154	185	189
General hardware	15	−15.4	+ 9.4	3,400	13	−14.1	15,025	15	−19.6	− 3.8	8,901	262	275	297
Heavy hardware	4	− 4.1	+16.4	71	4	− 7.8	333	—	—	—	—	—	—	—
Industrial supplies*	14	−19.0	+15.9	473	12	−20.8	1,867	7	− 9.5	− 2.7	536	161	165	203
Plumbing and heating supplies	12	−14.7	+ 9.6	343	11	−15.3	1,500	6	−18.5	− 1.9	570	291	309	309
Jewelry and optical goods	4	−27.1	−13.6	51	—	—	—	—	—	—	—	—	—	—
Surgical equipment and supplies	5	− 8.2	+ 9.8	45	—	—	—	—	—	—	—	—	—	—
Tobacco and its products	15	− 3.9	+ 7.8	691	6	+ 0.8	2,046	—	—	—	—	—	—	—
South Atlantic	299	−17.2	− 2.4	14,871	244	−14.2	81,766	161	−12.3	− 2.7	16,559	188	172	183
Automotive supplies	4	−12.6	+45.1	132	—	—	—	—	—	—	—	—	—	—
Shoes and other footwear	5	−11.7	−37.2	499	5	−13.4	5,652	4	−41.2	− 2.0	1,000	204	308	131
Drugs and drug sundries	27	− 1.8	+ 2.3	2,034	23	− 2.8	11,689	16	− 3.0	− 4.3	3,455	255	263	275
Dry goods	12	−26.0	−14.7	599	12	−20.5	4,533	6	−31.9	− 9.8	1,081	419	470	372
Electrical goods	41	−41.4	−12.5	1,659	46	−30.9	9,857	38	−11.1	− 5.9	2,201	138	91	128
Furniture and house furnishings	4	−25.0	−16.7	195	4	−20.3	1,156	—	—	—	—	—	—	—
Groceries and foods, except farm products	100	−13.7	+ 4.1	4,158	66	−11.1	18,714	32	−15.9	− 1.9	2,276	152	152	161
General hardware	29	−23.9	− 5.7	1,312	26	−21.6	8,172	16	− 2.1	− 0.8	2,850	381	289	365
Industrial supplies*	15	−28.7	− 1.1	281	14	−26.5	1,645	9	− 3.5	− 2.2	581	267	199	266
Plumbing and heating supplies	19	−14.6	+ 4.2	752	18	−15.1	3,532	16	−12.9	+ 2.4	869	178	158	172
Paper and its products	6	−18.9	−12.7	262	6	−13.2	1,753	—	—	—	—	—	—	—
Surgical equipment and supplies	6	−18.7	− 2.0	100	—	—	—	5	+12.3	− 2.4	201	223	161	219
Tobacco and its products	18	+ 0.2	+ 6.6	1,121	12	− 4.1	5,138	7	+ 7.5	+ 6.1	173	56	56	54
East South Central	133	−17.5	− 1.1	8,267	96	−17.4	42,684	68	−19.5	− 3.4	9,879	196	198	201
Drugs and drug sundries	14	− 9.7	+ 5.9	1,160	12	−11.7	6,635	8	− 7.4	− 0.4	1,863	209	202	227
Dry goods	13	−18.2	−17.0	762	12	− 8.9	6,352	7	−37.3	− 2.3	2,025	343	440	288
Electrical goods	12	−39.3	−19.6	499	11	−33.4	3,103	11	−13.0	− 1.7	734	151	104	123
Groceries and foods, except farm products	62	−12.0	+ 3.2	3,205	32	−13.3	11,266	25	−15.3	− 6.1	2,299	142	149	154
General hardware	13	−27.9	−12.0	1,482	13	−23.4	9,772	6	−14.7	− 4.8	1,822	297	238	273
West South Central	183	−11.6	+ 1.1	14,914	152	−11.5	71,865	126	−10.9	− 3.2	25,464	225	216	228
Drugs and drug sundries	19	+ 2.3	− 2.4	2,118	17	+ 1.3	12,655	15	+ 0.7	0.0	4,871	262	266	255
Dry goods	13	−15.7	− 3.7	1,108	13	−12.3	7,542	12	−33.8	− 2.1	3,469	337	441	332
Electrical goods	23	−33.2	−20.3	869	23	−20.5	5,417	18	−15.2	− 8.7	887	118	94	101
Furniture and house furnishings	4	− 2.1	+12.7	276	—	—	—	—	—	—	—	—	—	—
Groceries and foods, except farm products	67	− 6.4	+ 5.3	6,604	54	− 7.6	27,158	45	−10.8	− 4.2	7,732	160	161	168
General hardware	18	−12.1	− 4.5	1,423	15	− 8.9	7,272	13	− 5.3	+ 3.3	3,472	324	303	296
Industrial supplies*	7	−30.9	+ 7.7	1,115	6	−33.6	5,009	5	− 4.3	− 5.9	2,226	312	188	359
Machinery, equipment and supplies, except electrical	5	−22.1	+17.6	627	4	−33.1	2,678	—	—	—	—	—	—	—
Surgical equipment and supplies	5	−17.0	+ 2.3	44	—	—	—	—	—	—	—	—	—	—
Tobacco and its products	10	+ 2.2	+ 3.9	376	5	+ 8.2	1,103	4	− 7.8	− 4.1	47	50	57	55
Mountain	85	−13.2	+ 9.5	5,441	63	−16.8	21,893	61	− 8.4	− 4.1	7,794	176	170	196
Automotive supplies	7	− 2.5	+ 3.9	79	4	− 4.7	204	—	—	—	—	—	—	—
Electrical goods	12	−34.1	− 1.6	506	11	−34.9	2,269	10	− 1.9	+ 1.3	615	131	88	126
Groceries and foods, except farm products	15	+ 2.6	+ 9.7	1,225	18	− 4.9	3,597	22	− 8.4	− 9.3	2,559	156	186	179
General hardware	10	−15.8	+ 3.0	956	8	−19.6	4,181	7	−12.4	− 3.6	1,653	301	319	335
Pacific	237	−12.7	+ 8.3	21,343	175	−13.7	93,518	124	−11.5	− 5.9	29,579	216	212	249
Automotive supplies	55	− 4.6	+ 3.5	943	43	− 8.8	3,201	21	− 4.0	+ 1.8	1,304	279	272	285
Shoes and other footwear	6	−22.7	−17.7	102	5	−16.7	743	4	−11.5	+ 0.6	361	388	352	307
Drugs and drug sundries	8	− 3.0	+12.9	3,465	7	− 8.7	19,381	6	−23.4	−13.9	5,774	207	266	281
Dry goods	12	−12.1	− 5.2	779	12	−19.0	4,724	6	−25.2	+ 1.7	1,020	337	377	304
Electrical goods	32	−28.6	+ 3.0	2,686	22	−26.0	10,004	29	−17.8	− 1.9	3,645	153	132	160
Farm products (consumer goods)	4	+13.5	+16.3	572	4	+ 4.1	3,196	—	—	—	—	—	—	—
Furniture and house furnishings	8	−36.4	+ 0.9	447	7	−29.4	2,428	—	—	—	—	—	—	—
Groceries and foods, except farm products	31	+ 1.7	+ 8.1	5,042	21	− 4.8	18,871	15	+ 0.6	− 8.2	5,217	157	160	180
Meats and meat products	4	+ 3.2	+16.6	541	4	− 4.9	2,886	—	—	—	—	—	—	—
General hardware	17	−22.1	+13.0	3,064	15	−23.5	13,830	9	−15.7	− 5.2	6,712	349	321	424
Industrial supplies*	11	−14.1	− 0.8	256	9	−25.3	1,213	7	+ 4.5	+ 0.2	437	339	235	287
Plumbing and heating supplies	8	−35.0	+11.1	540	7	−41.4	2,413	4	−20.1	− 5.7	115	160	140	179
Paper and its products	6	−13.0	0.0	201	5	− 6.6	1,139	—	—	—	—	—	—	—
Surgical equipment and supplies	8	−17.1	+10.6	136	—	—	—	6	− 1.9	+ 1.1	357	384	306	401
Tobacco and its products	13	0.0	+10.2	1,037	—	—	—	—	—	—	—	—	—	—

*This heading also includes distributors of mill, mine and steam supplies.
♯These Stock-Sales Ratios are percentages obtained by dividing Stocks by Sales for an identical group of firms.
—Insufficient data to show separately.

WHOLESALERS' accounts receivable and collections, by geographic regions, June 1938

Kind of Business and Region	Number of firms reporting	Collection Percentages*			Total Accounts Receivable		
		June, 1938	June, 1937	May, 1938	Percent change June 1, 1938 from: June 1, 1937	Percent change June 1, 1938 from: May 1, 1938	As of June 1, 1938 (000's)
New England	104	63	66	62	−11.9	+ 5.6	$8,736
Electrical goods	27	80	78	83	−26.4	+ 9.9	1,516
Groceries and foods, except farm products	14	71	73	69	− 6.8	+ 3.9	2,247
General hardware	6	51	56	48	− 5.5	− 0.8	755
Heavy hardware	4	52	62	73	−28.1	+ 8.2	92
Industrial supplies**	12	46	59	42	−17.5	− 0.5	364
Plumbing and heating supplies	9	58	53	44	−17.0	− 9.7	420
Surgical equipment and supplies	4	44	40	49	−15.4	− 6.3	193
Tobacco and its products	8	110	118	108	+ 0.7	+ 7.2	269
Middle Atlantic	412	82	84	79	−12.5	− 0.1	43,099
Automotive supplies	11	42	59	41	+15.1	− 1.0	290
Clothing and furnishings, except shoes	6	50	58	45	−10.0	−16.4	1,719
Shoes and other footwear	7	50	51	43	−13.6	−10.1	1,516
Drugs and drug sundries	23	63	68	64	− 3.6	− 0.2	5,943
Dry goods	16	48	47	50	−29.9	− 1.4	2,013
Electrical goods	59	71	91	76	−24.1	− 0.6	3,654
Farm products (consumer goods)	6	118	122	125	−10.6	+ 8.6	517
Groceries and foods, except farm products	81	107	107	104	− 8.3	+ 3.0	10,270
General hardware	24	49	49	45	− 6.9	− 2.8	3,134
Heavy hardware	9	64	70	64	−16.7	+ 0.8	524
Industrial supplies**	37	55	67	57	−29.2	− 3.0	1,774
Plumbing and heating supplies	41	54	59	49	−16.2	+ 4.9	1,910
Jewelry and optical goods	15	23	32	20	−23.5	− 2.9	903
Lumber and building materials	7	56	60	53	−24.6	+ 6.5	410
Paper and its products	13	66	62	65	−27.3	− 4.4	1,356
Surgical equipment and supplies	8	31	37	34	− 4.0	+ 0.4	242
Tobacco and its products	32	145	158	138	+ 9.1	+ 4.3	3,235
East North Central	347	71	79	70	−13.4	− 0.1	35,862
Automotive supplies	34	58	68	57	− 4.0	+ 2.0	626
Drugs and drug sundries	20	83	92	80	− 1.8	+ 0.5	3,145
Dry goods	9	46	50	45	−13.7	+ 0.1	1,662
Electrical goods	58	63	81	66	−18.6	− 0.8	6,338
Groceries and foods, except farm products	72	102	108	94	− 4.5	− 0.7	6,791
General hardware	24	57	64	56	−14.8	− 0.6	7,368
Industrial supplies**	26	64	72	65	−43.2	+ 0.6	1,325
Plumbing and heating supplies	10	62	65	60	−27.5	+ 2.0	676
Jewelry and optical goods	15	25	29	22	− 9.9	+ 4.2	1,917
Paper and its products	11	76	77	74	−20.3	− 1.5	992
Surgical equipment and supplies	7	51	58	52	+15.2	0.0	499
Tobacco and its products	34	120	127	118	+ 3.5	+ 4.5	1,892
West North Central	219	70	69	67	− 9.5	− 3.5	43,100
Automotive supplies	13	57	66	55	+ 6.4	− 4.7	545
Clothing and furnishings, except shoes	5	30	36	35	+14.9	+14.4	262
Shoes and other footwear	5	49	49	47	− 9.7	−16.5	6,034
Drugs and drug sundries	16	82	83	78	+ 2.8	+ 1.5	3,030
Dry goods	8	48	47	48	−21.4	− 3.4	9,129
Electrical goods	27	65	81	65	+ 9.7	+ 3.3	2,189
Furniture and house furnishings	9	56	55	56	−20.7	+ 4.2	2,503
Groceries and foods, except farm products	57	127	124	111	− 4.3	− 1.4	4,861
General hardware	15	51	55	50	− 5.9	− 0.8	6,586
Heavy hardware	4	65	65	58	− 7.5	− 1.0	99
Industrial supplies**	12	56	61	55	−17.5	+ 2.5	578
Plumbing and heating supplies	11	52	59	52	− 3.1	+ 3.4	603
Jewelry and optical goods	4	50	52	50	− 8.6	+ 0.9	117
Surgical equipment and supplies	5	41	43	45	− 9.3	+ 3.2	98
Tobacco and its products	6	182	207	193	+ 8.9	+ 5.6	171
South Atlantic	231	66	72	66	−10.2	− 0.9	15,945
Drugs and drug sundries	24	78	84	78	+ 2.9	− 1.4	2,204
Dry goods	9	41	44	40	−14.8	− 6.3	1,348
Electrical goods	38	80	93	85	−21.0	+ 8.7	2,007
Groceries and foods, except farm products	64	92	103	93	− 6.8	+ 2.5	2,451
General hardware	28	42	47	43	−14.2	− 4.8	3,052
Industrial supplies**	12	52	65	55	−14.9	− 0.4	463
Plumbing and heating supplies	18	59	61	60	−10.0	+ 8.2	1,111
Paper and its products	4	62	66	63	− 5.0	− 6.3	326
Surgical equipment and supplies	5	43	42	48	− 5.6	+ 0.5	186
Tobacco and its products	12	84	88	81	+ 2.9	+ 2.6	639
East South Central	110	63	66	61	−13.9	− 0.7	11,096
Drugs and drug sundries	11	66	65	64	−13.0	− 2.8	1,434
Dry goods	12	36	38	40	−17.1	− 4.6	2,189
Electrical goods	11	66	82	67	−23.3	+ 1.5	810
Groceries and foods, except farm products	48	89	94	92	− 7.7	+ 2.9	2,716
General hardware	11	51	56	49	−16.4	− 4.2	2,324
West South Central	157	63	68	66	− 6.9	− 0.4	18,343
Drugs and drug sundries	16	68	72	73	+ 4.2	− 2.4	2,732
Dry goods	13	34	37	37	− 7.7	− 4.0	3,420
Electrical goods	18	74	95	83	− 4.0	+10.1	945
Furniture and house furnishings	4	60	53	68	−18.3	− 7.1	445
Groceries and foods, except farm products	57	93	99	95	− 5.8	+ 0.2	5,057
General hardware	18	58	62	58	− 1.5	+ 1.2	2,420
Industrial supplies**	6	47	51	52	−42.1	− 4.9	1,306
Machinery, equipment and supplies, except electrical	4	32	43	26	+20.2	+12.4	1,290
Surgical equipment and supplies	5	35	43	40	+ 9.6	− 1.0	103
Tobacco and its products	6	95	98	98	+11.7	− 3.6	134
Mountain	81	74	80	74	− 5.2	+ 2.8	5,740
Automotive supplies	5	66	68	73	+ 1.3	+10.0	77
Electrical goods	16	78	86	74	−20.8	+ 2.4	672
Groceries and foods, except farm products	25	88	93	88	+21.7	+ 4.9	1,734
General hardware	8	51	55	52	−10.0	+ 2.3	1,063
Pacific	193	73	75	71	−12.4	+ 1.2	23,059
Automotive supplies	38	62	61	58	− 8.8	− 0.7	933
Shoes and other footwear	4	45	48	38	+ 0.9	−13.8	324
Drugs and drug sundries	5	85	88	86	+ 2.2	− 0.2	2,969
Dry goods	11	59	58	56	−20.5	− 1.0	1,371
Electrical goods	29	72	79	70	−24.4	+ 2.4	3,196
Furniture and house furnishings	8	53	60	53	−22.5	+ 1.5	856
Groceries and foods, except farm products	23	107	113	106	+ 9.4	+ 7.5	3,204
General hardware	15	51	55	49	−15.5	+ 0.5	5,389
Industrial supplies**	11	56	63	59	−13.9	+ 2.8	402
Plumbing and heating supplies	8	72	80	65	−37.6	− 3.9	613
Paper and its products	5	59	62	63	− 5.7	+ 4.7	266
Surgical equipment and supplies	8	40	35	42	−17.4	+ 0.3	319
Tobacco and its products	8	114	132	117	− 1.4	+ 3.9	582

*Collection percentages represent the percent of total dollar collections reported to the total of accounts receivable reported by the same firms.

**This heading also includes distributors of mill, mine and steam supplies.

STATES COMPRISING REGIONS: New England—(Conn., Me., Mass., N. H., R. I., Vt.); Middle Atlantic—(N. J., N. Y., Pa.); East North Central—(Ill., Ind., Mich., Ohio, Wisc.); West North Central—(Iowa, Kans., Minn., Mo., Nebr., N. Dak., S. Dak.); South Atlantic—(Del., D. C., Fla., Ga., Md., N. Car., S. Car., Va., W. Va.); East South Central—(Ala., Ky., Miss., Tenn.); West South Central—(Ark., La., Okla., Texas); Mountain—(Ariz., Colo., Idaho, Mont., Nev., N. Mex., Utah, Wyo.); Pacific—(Cal. Ore., Wash.).